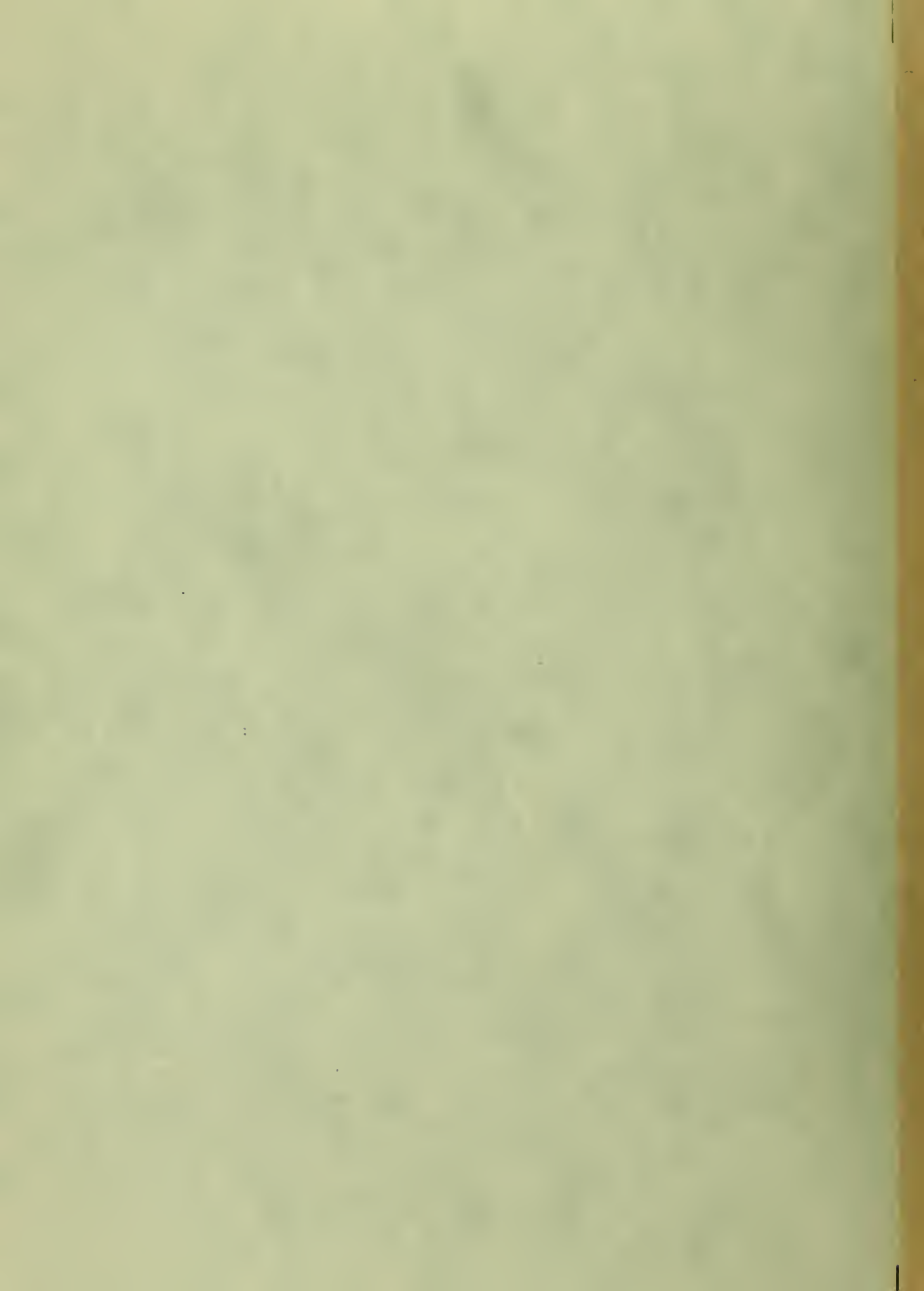


BUDGETING AND FINANCIAL INFORMATION SYSTEMS  
IN THE MARINE CORPS

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IN THE MARINE CORPS

By

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## CHAPTER I

### INTRODUCTION

As the allocation of limited resources becomes more complex, the necessity for resource management becomes increasingly critical. This creates a situation where it becomes necessary to increase the level of sophistication of our analytical techniques in order to improve the quality of information used for decision-making. One system which has undergone a great deal of change within the last decade is the budgeting and accounting system within the Department of Defense.

A budget can be described in a variety of ways depending upon the scope of its use, but most simply a budget is a financial plan for achieving selected objectives. It appears safe to assume that resources will always be scarce and that organizations will always be forced to decide upon the best alternative to achieve stated objectives. If this is true, then there will be a requirement for a financial analytical system which will allow exhaustive evaluation of alternatives. It is within this general theme that this paper will examine the budgetary and financial information systems of the Marine Corps.

Financial management in the Marine Corps is the responsibility of the "commander." He is charged with not only accomplishment of his assigned mission but additionally he must accomplish the mission, efficiently utilizing the resources at his disposal. Proper management of these resources will play a large role in determining the overall effectiveness of the unit.



In order to successfully manage these funds the commander needs clear, concise, and timely information. This information is provided by means of an accounting, information, and reporting system. The basic objectives of this system are to determine the cost of operations of an activity in terms of total resources consumed or applied, and to establish a system of monetary and quantitative controls that will be of maximum value to the commander in assuring that resources are used effectively and efficiently in the accomplishment of the mission. Thus, it is a fundamental requirement that this system provide the commander with the input he requires to exercise sound managerial judgement.

#### Research and Subsidiary Questions

This paper will primarily address itself as to whether the present financial information and accounting system of the Marine Corps, as it pertains to operation, provides the commander and his staff with the input necessary to manage their resources effectively and efficiently. This question will be approached by first exploring the answers to several other questions. These questions are: What is the background philosophy for budgeting in the Department of Defense? What is the general theory behind the use of financial accounting and information systems within the budgetary process? What is the function of the system currently used in accounting for operations within the Marine Corps? Who uses the system and the information it provides? And finally, how useful is the information at Headquarters Marine Corps? At the field level?



### Scope of Study

The author intends to develop a background of the budgeting philosophy first within the Department of Defense and then within the Marine Corps; as it is this philosophy that dictates the output required from the financial information systems of the Defense agencies. The emphasis will be in evaluating the practical utilization and purpose of the information generated by the system and not on developing a new system. It will assess the system as it is, and not as the system could be if it were changed to meet the varying needs of separate agencies. After an initial intrusion into the area of Defense Budgeting the author found it quite obvious that the current budgetary and financial information system used by all agencies within the Department of Defense is a product of the output primarily required to support the Defense requests to the office of Management and Budget and the Congress. Therefore, the evaluation of the current budget and financial information system must focus on maximum agency utilization rather than overhauling the system--especially from the standpoint of an agency that receives a small percentage of the Defense budget. In addition, the author does not intend to dwell on the technological aspects of the data processing systems inherent in the financial information system as the detail will not lend clarity but rather confuse the main issue -- information and system utilization. It is the intent of the author that this study may be read and understood without requiring a technical background in accounting or data processing.





As the entire budget/financial management process within the agencies of the Department of Defense is extensive and complex, the study will focus on a detailed examination of budgeting and accounting for operations within the Marine Corps. This is an important and dynamic area which transcends staff and line functions, and delimits the esoteric "myth" surrounding financial management. In addition, focusing in the area of operations, permits an examination of the basic accounting system used within the Department of Defense in accounting for resource expenditure -- Project PRIME.

#### Purpose and Utility of the Study

As has been alluded to previously, the purpose of the study is to evaluate the current financial information and accounting system of the Marine Corps within the requirements of the current Defense budget process. The author feels that there is an underlying feeling within major commands of the Marine Corps that the financial information system is basically esoteric in nature and limited to the sole use by higher authority. The author does not agree with this approach and intends to create the general framework within which one, specifically a field commander, can view the advantages and limitations of the current system. In addition, by providing detailed background of the evolution and requirements of the current budget process, the author will demonstrate the necessity of providing the type information generated by Project PRIME and the associated financial information systems.





### Research Methods/Methods of Analysis

The basic source of input into this paper will be secondary sources of information: books, magazine articles, and reports on file at Headquarters Marine Corps. In addition, this input will be supplemented by interviews with Marine Corps officers and civilian employees associated with the budget process and the development and utilization of financial information systems. The information will be analyzed using the guidelines for performance as set down by Headquarters Marine Corps as well as supplementary evaluative comments from major contributors to general management philosophy. The conclusions, however, are those of the author and are not meant to be interpreted as those of the Marine Corps or any other agency of the federal government.

### Organization of the Study

The study begins with a discussion of the general philosophy of Defense budgeting. This chapter is intended to provide the background on the development of the budgetary process within the Department of Defense with emphasis on the external forces which act upon it to produce the specific requirements levied upon the agencies within the Department of Defense. In addition to this basic philosophy there is a discussion of the general applications and requirement of accounting and financial information systems within the budget process. This chapter closes with a discussion of the Resource Management System (RMS) and Project PRIME.

The third chapter is concerned with the budget process within the Marine Corps then more specifically budgeting for operations. The first section presents the general aspects of financial management within



the Marine Corps, to include the overall philosophy, source of funds, and the budget cycle. The last two sections of the chapter discuss the operating budget, from formulation through execution. It is designed to provide a specific background upon which one may evaluate the financial information and accounting system designed to monitor the management of resources and budget execution.

The fourth chapter deals with the accounting and management process, and contains the central theme of the paper. The first section describes the accounting problems, obligation accounting versus expense accounting, management versus command, and controllable costs versus noncontrollable costs. This leads to a discussion of the resources available to the commander; manpower, money, and material. The next section describes the current reporting process with a view toward the part that the financial information system plays in the Integrated Information System. Finally, the chapter discusses management action that is possible through utilization of the information provided by PRIME and associated supplementary financial reports. An effort is made to distinguish between utilization by Headquarters Marine Corps and utilization at the field level, with emphasis on the latter.

In the summary and conclusions, the author will link together the philosophy with the practice and provide a realistic evaluation of the current financial information system. It is intended to stimulate those using the system to see it for what is is, not for what they want it to be or think it should be. And by understanding its advantages and limitations, all managers will be motivated to use the system to the maximum extent possible.



## CHAPTER II

### A GENERAL PHILOSOPHY FOR DEFENSE BUDGETING

#### The Evolution of the Defense Budget

Until enactment of the National Security Act of 1947, military affairs were managed through two executive departments--the War Department and the Navy Department. But experience during the Second World War demonstrated a requirement for a new defense structure that would establish a central authority. That central authority was established with the enactment of the National Security Act of 1947 when Congress created the Department of Defense (DOD), headed by a Secretary with authority over the Department of the Army, Navy and Air Force. Under the initial provision of this act, all four departments were considered executive departments with their heads cabinet officers.<sup>1</sup>

A more significant reform from the standpoint of defense budgeting was the 1949 amendment to the National Security Act. This amendment removed the Departments of the Army, Navy and Air Force from executive status and placed them under the complete control of the Secretary of Defense. In addition, this amendment established military controllership.

In conjunction with the recommendations of the First Hoover Commission incorporated into the Budget and Accounting Act of 1950, the

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<sup>1</sup>David Novick, "The Department of Defense," Program Budgeting, ed. by David Novick, (Washington, D. C.: Government Printing Office, 1965), p. 51.





Secretary of Defense was given greater authority over the financial management of the Department of Defense. It also required the Secretary to submit a performance type budget to the Congress.<sup>1</sup>

In addition, there was a valiant attempt by the Appropriations Committees ". . . to reline the Department of Defense appropriations structure from over 100 accounts into a streamline structure of about forty accounts grouped into five categories."<sup>2</sup> These five categories were: Personnel, Operations and Maintenance, Procurement, Research and Development, and Construction. These are the same classifications being used today by the Department of Defense with some slight modifications. However, to understand the complex process of budgetary change in the Department of Defense requires an introduction to the general evolution or change in the overall federal budgetary process.

The first important budgetary reform took place with the enactment of the Budget and Accounting Act of 1921. This Act required the President to submit a comprehensive executive budget to Congress, created the Bureau of the Budget to provide the President administrative assistance in preparing and managing the budget, and established the General Accounting Office (GAO) to serve as the congressional budgetary audit service. The main objective of the Act was to establish a central authority, the President, who would answer for all the executive departments. The result was to eliminate the system of the departments and

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<sup>1</sup>Alain C. Enthoven, "Introduction," A Modern Design for Defense Decisions: A McNamara-Hitch-Enthoven Anthology, ed. by Samuel A. Tucker (Washington, D. C.: Industrial College of the Armed Forces, 1966), p. 3.

<sup>2</sup>U. S. Department of Defense, A Primer on Project PRIME, a pamphlet (April 1967), p. 2.





agencies submitting semi-independent budgets to the Congress.

The next significant piece of legislation was the Employment Act of 1946. The principal achievement of this act was to establish the Council of Economic Advisors as the principal advisors to the President on the economy and the Joint Economic Committee as the principal advisory body to the Congress on economic matters. The Council of Economic Advisors is a significant element of the overall budgetary process. They are charged with providing the President with recommendations on how to coordinate the requirements of the executive departments and agencies with the requirements of the national economy. They play a large part, depending on the President, in determining the final dollar figures submitted in the executive budget.

The next step in reform was the Amendment to the National Security Act of 1947 and the Budget and Accounting Procedures Act of 1950. The impact of this piece of reform has already been mentioned earlier in this section. Clearly, these two pieces of legislation were of paramount importance in establishing a well organized integrated budget process within the Department of Defense.

As the First Hoover Commission was credited with the seeds of "performance budgeting," the Second Hoover Commission in 1955 is credited with an attempt to bring accrual accounting to federal budgeting. The Commission attempted to introduce cost-based budgeting, which would change the appropriations process to an expense basis rather than an obligation basis. Further, that ". . . Government accounts be kept



in the accrual basis to show currently, completely and clearly all resources and liabilities and the cost of operations."<sup>1</sup>

Although Congress would not accept the idea of the cost-based budget, the commission did achieve recognition for planting the seeds of accrual accounting within the budgetary process, still a major project of the federal government today. Whether or not Congress will be willing to move from an obligation base to an expense base for the appropriation process remains a question for the future. If the change is made it will simplify the accounting and presentation aspects of the budget process tremendously.

The next phase of reform which directly relates to the Department of Defense, is that of the Planning-Programming-Budgeting System (PPBS). This phase started in the Eisenhower years and ties in with the recommendation of the Second Hoover Commission. During the late fifties, Eisenhower saw, ". . . the need for expediting and strengthening the unification process" in the Department of Defense.<sup>2</sup> In 1961, this phase reached a climax with the appointment of Robert McNamara as Secretary of Defense. Eisenhower had already forced some unification through the creation of specified and unified commands, forcing each of the individual services to operate through a chain of command which passed through the Joint Chief of Staff to the Secretary of Defense and finally to the President. McNamara, and specifically Charles Hitch, the Defense Comptroller, reinforced this idea with the increased central planning inherent in the new PPB system.

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<sup>1</sup>Ibid., p. 4.

<sup>2</sup>Novick, "Department of Defense," p. 52.



By 1965, the Defense Department had so impressed President Johnson with their budgetary reform that he prescribed the PPB system for all executive departments and agencies. However, after several years of fighting the new system and rationalizing why it cannot be used in their particular area, PPBS was shifted back to a Defense oriented system rather than the budget system for the entire executive branch.

In 1967, President Johnson appointed a commission to study the budgeting process. The primary impact of this study was a fundamental change in the budget package. The idea was to get a system that could be understood and eliminate the three types of budgets, the Administrative Budget, the Cash Budget and the National Income Accounts. What developed was a unified budget document which would be submitted to Congress in January of each year. Other recommendations were to make the budget more "all-inclusive," to insure all expenditures and receipts of funds were included, and once again a recommendation to place expenditures and receipts on an accrual basis. They felt, " . . . from the standpoint of determining fiscal policy, expenditures on an accrual basis probably represent the best measure of the economic impact of the budget."<sup>1</sup> Again the cry was for a better accounting mechanism. As will be discussed later the cry was heard by Robert N. Anthony, Assistant Secretary of Defense (Comptroller), and Project PRIME was born.

The latest effort toward reform was President Nixon's redesignation of the Bureau of the Budget to the Office of Management and Budget

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<sup>1</sup>Report of the President's Commission on Budget Concepts, David M. Kennedy, Chairman (Washington, D. C.: Government Printing Office 1967), p. 82.





(OMB). This change was designed to be far more than a nominal redesignation of an executive agency. The President intended to increase the scope of this executive department to include more emphasis in the managerial aspects of government operations. The OMB would work with the other advisory bodies, especially the Council of Economic Advisors, and coordinate and control the formulation of the executive budget.

Each of the above reforms has had an unquestionable impact of Defense budgeting. As mentioned previously, the budgeting system of the Department of Defense is primarily that of program budgeting or the PPB system. The emphasis is on a planning function designed to produce meaningful courses of action integrated within the Five Year Defense Program (FYDP). Then selected alternatives are programmed into the budget in terms of the ten programs of budget activities: strategic forces, general purpose forces, intelligence and communications, airlift/sealift, guard and reserve forces, research and development, central supply and maintenance, training, medical, and other general purpose activities, administration and associated activities, and support of other nations.

These ten programs are then further broken down into about 1100 program elements, which are the forces, manpower, materials, and services which make up the program. The program element is designed to answer the question, "What kinds of resources are being consumed?" They are designed to identify specific resources consumed within a functional or subfunctional category. The desired effect in the introduction of this type of program format was to develop a coordinated clear budgetary system within the agencies of the Department of Defense, as well as





permitting a comparison of resource expenditure among the agencies.

### The Budget Cycle

Each of the agencies mentioned above play a part in Defense budgetary process, called the "Budget Cycle." The Budget Cycle begins eighteen months prior to the submission of the budget to Congress in January preceeding the fiscal year. The cycle starts when the Joint Chiefs of Staff (JCS) submits the Joint Strategic Objective Plan, Volume I (JSOP, Vol. I) which contains the strategic guidance based on national security objectives and military strategy. Robert C. Moot, the current Assistant Secretary of Defense (Comptroller) states:

By comparing the latest Joint Strategic Objectives Plan to the ones used in the past, general trend can be detected. The Joint Strategic Objectives Plan has become a more useful document for budgetary purposes. In addition to reflecting the major shifts in strategy that have been made, it also provides more detail on new strategies. This is a subtle change, but one that leaves less room for subsequent interpretation as strategies are converted into force levels. Thus, the Joint Strategic Objectives Plan does exert more control on the rest of the process than before. This is highly desirable, for it will serve to bring the costs of various strategies more sharply into focus as overall military policy is developed.<sup>1</sup>

The Secretary of Defense then comments on the contents of the JSOP, Vol. I and issues "Force and Resource Planning Guidance and Material Support Planning Guidance" for comment by the JCS.

This memorandum is provided to each department and agency within the Defense establishment. Firm fiscal guidance is established within

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<sup>1</sup>Robert C. Moot, "Defense Budgeting, A New Look," Army Logistician, July-August, 1971, p. 6.



programs for the budget year plus the next four years thereafter. This represents a change to the former system under McNamara. According to Moot, "Under the former system, DOD was planning and budgeting in an unconstrained 'requirement basis.' Requirements were determined independent of the availability of resources."<sup>1</sup> Under the former system fiscal constraints were not introduced until the end of the budget cycle prior to submission of the President's budget. Moot adds, "The introduction of early fiscal guidance will now place DOD planning in a realistic basis throughout the entire PPB cycle."<sup>2</sup>

In December, a year prior to the budget submission to Congress, the JCS submits Volume II of the JSOP which contains ". . . an evaluation of the forces, manpower, and costs required to execute the strategy contained in Volume I."<sup>3</sup> In January, each of the military departments update the Five Year Defense Program, taking into consideration the information provided by the JSOP Volume I and II and the fiscal constraints laid down by DOD. After analysis of the updated FYDP and the JSOP, Volume II, the Secretary of Defense issues a Planning and Program Guidance Memorandum which specifically delineates fiscal and force constraints.

In late spring, the JCS issues a Joint Forces Memorandum to the Secretary of Defense which tests the requirements of the agencies within

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<sup>1</sup>Ibid.

<sup>2</sup>Ibid., p. 7.

<sup>3</sup>Ibid., p. 6



the parameters of the fiscal guidance. In addition, it gives the assessment of risk for any requirement which is outside the constraints sent down by the Secretary. Then based on the structure contained in the Joint Forces Memorandum, each service and agency submits a Program Objectives Memorandum (POM) which is an all-encompassing detailed list of the resource requirements for that service or agency. The individual POM's are then reviewed, Program Decision Memorandum (PDM) are issued to the service for comment and reclama.<sup>1</sup> The purpose of this analysis on the part of the Secretary of Defense is the update of the FYDP.

The next part of the budget cycle encompasses the actual submission of the budgets through the "chain of command", the review process, and finally submission to Congress in January.

By the first part of October, agency budgets are sent to the Secretary of Defense, and one should keep in mind that as all budgets are submitted up the chain of command a review process takes place which terminates when the budget is sent to the Office of the Secretary of Defense (OSD). Once the budgets reach OSD they are reviewed jointly by the Assistant Secretary of Defense (Comptroller) and the Office of Management and Budget (OMB). From the time the budget is submitted to the Office of the Secretary of Defense until it is sent to the printer, OSD issues Program Budget Decisions (PBD) which require comment by the services. Basically, PBD's adjust a specific area of the budget and this adjustment may increase or decrease the funds requested within that

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<sup>1</sup>Reclama is the process of agency rejustification or development of alternatives designed to reclaim a portion of a budget cut made by a higher authority.



specific area of the budget. When funds are decreased, the agencies can reevaluate their initial proposal and either rejustify the original amount or provide a compromise alternative for final decision by the Secretary. This is the final internal review and takes into consideration any changes in the economic situation requiring changes in fiscal policy. The cycle ends with submission to Congress.

The defense budgetary system is a highly complex and changing system. There is a great deal more to the philosophy of defense budgeting and the internal and external forces which act upon it to produce changes. In order to have an appreciation of the current system used to prepare and execute the defense budget, the reader should have an exposure to the specific philosophy underlying its formulation and presentation, as well as the dynamic forces which promote (and in some cases inhibit) change. This is the intent of the next two sections.







### Budget Philosophy in the Department of Defense

As previously mentioned, as the allocation process becomes more complex, the methodology of the budgetary process must become more detailed. But because of the complexities involved in federal budgeting, some rather basic assumptions are required to provide the proper framework for analysis.

One of the most important assumptions is that the budgetary process is a rational process. Unfortunately, this is rather simplistic; the federal budgetary process is actually a highly complex political process. According to Arron Wildavsky, "President, political parties, administrators, Congressmen, interest groups, and interested citizens vie with one another to have their preferences recorded in the budget."<sup>1</sup> Realistically, this complex process sometimes takes into consideration the optimum allocation of resources and sometimes it does not. However, the point being made is that budget planning and formulation must center around a rational allocation process regardless of the final federal mechanism for budget approval.

Another basic assumption is that it is possible to quantify benefits from Defense programs. The output of the Department of Defense is a service called "deterrence," and the quantification of all aspects of the systems that provide the deterrence is hard at best. But, since 1961,

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<sup>1</sup>Arron Wildavsky, The Politics of the Budgetary Process (Boston: Little, Brown and Company, 1964), p. 5.



the ability of the Department of Defense, and its agencies to rationalize the allocation of resources and optimize the deterrence value has improved tremendously. While not perfect, PPB is the best technique available and far superior to the previous system which had its main emphasis on current expenditure vice total program expenditures.

A final assumption is that there is a continuing desire within the Department of Defense to improve the budget process; specifically, a desire to provide the best possible budget package to the President and to Congress. This assumption actually ties together the two previous assumptions. Assuming budgeting is a rational process and that it is possible to measure cost and benefit, the Department of Defense, and all its agencies, strive to give the taxpayers "the most bang for their buck."

Allen Schick's definition of budgeting, ". . . a process for systematically relating the expenditure of funds to the accomplishment of planned objectives," indicates that planning and programming are involved in any budgeting process.<sup>1</sup> But Schick goes on to say that there are additional functions to be served by the budget process, namely, management and control.<sup>2</sup> This points to the requirement for a total budget appraisal and decision system which will transfer plans into dollar figures for analysis and then translate these plans into program

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<sup>1</sup>Allen Schick, "The Road to P.P.B.: The Stages of Budget Reform," Public Administration Review, XXVI (December, 1966) 244.

<sup>2</sup>Ibid.



packages which are then introduced into the presentation phase of the budgetary process.

What is desired then is an expanded budgetary system based on the planning-programming-budgeting system introduced in 1961. This total system would tie together short, intermediate, and long-range planning into total program packages. Then, through the budgeting activity, present this package to the President for approval and then Congress for appropriation action. Finally, Schick points out that the budgeting system must also provide the framework for management and control, which would be intertwined in the process from beginning to end.<sup>1</sup> The concepts behind this system are hardly new, all these elements have existed in some form for at least a decade. The problem has been one of meaningful integration among the components themselves and probably more so the integration with the political process mentioned earlier. It might be meaningful at this point to take this framework apart and elaborate on the objectives and philosophy inherent in each segment.

Planning is defined as the " . . . study of objectives and of alternative ways to achieve those objectives."<sup>2</sup> Planning is the foundation of management action and decision making. Planning is also the most fundamental aspect of any budgeting or operating system. Specifically, the planning function requires identification of strategic

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<sup>1</sup>Ibid.

<sup>2</sup>U.S. General Accounting Office, Glossary for Systems Analysis and Planning - Programming - Budgeting, 1969 (Washington, D. C.: Government Printing Office, 1969), p. 48.





objectives which, in the case of the Department of Defense, maximize the deterrent force. As the process of defining national objectives becomes more complex this creates the absolute necessity for fully integrated centralized planning. The planning function must be fully integrated in that it must be consistent with both short-run and long-run objectives. It must be centralized because defense planning is tied directly to planning the national objectives as defined by the President and Congress. A prime example of integrated planning is that the Department of Defense starts the budget cycle two years prior to the budget year with the Joint Strategic Objectives Plan, Volume I, issued by the Joint Chiefs of Staff. The Plan is based on an evaluation of intelligence estimates and a review of the policy determinations of the National Security Council. A key point which must be kept in mind when analyzing the budgeting system in the Department of Defense is that the Department of Defense does not make defense policy, the function of the Department of Defense and its agencies is to recommend policy to the President and Congress and carry out policy decisions after they are made by those bodies. This point is critical when considering what programs are being projected into the budget.

Thus, based on the guidance set forth in the JSOP, the Department of Defense, and its agencies, set about to develop objectives and alternative means of achieving those objectives, all of which will be within the guidelines set forth by the President, Congress, and the Secretary of Defense.

However, this centralized planning carries with it a danger of creating a "planning gap" within the agencies who are ultimately





responsible for executing the final defense program. Under the current system, agencies are kept informed by a flow of information between the Secretary of Defense, the Joint Chiefs of Staff, and the defense agencies themselves. While the actual policy decisions are centralized, the flow of information regarding those policies is, or at least it should be, free.

There are several other principles of planning which should be considered within the total budget system. Planning must be continuous, always using the latest techniques of analysis to update and modify plans where required. Planning must be flexible to coincide with the changing national goals without causing a disruption of or endangering our defense position. Planning must also provide for commitment to full execution of the planned objectives, commitment provided by "participative management" and a free flow of the information required for decision making.

Thus to summarize the planning function, it must provide for a central determined policy statement which can be translated into flexible and time-integrated alternatives designed to achieve the stated objectives. The next step is then to evaluate those alternatives within a decision making framework which will lead to overall optimization of the "deterrence" by the Department of Defense.

This next step has been called the programming phase. Programming is " . . . the system of describing activities according to objectives or outputs and relating these objectives or outputs to the cost of inputs necessary to produce them."<sup>1</sup> This is also an analysis phase. A phase

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<sup>1</sup>Ibid.



where there must be continued effort to introduce every analytical technique which will improve the evaluation of the proposals. Going back to the assumption of a rational budget process -- effective decisions are a function of choosing the best alternative which will achieve the desired objective.

While a centralized planning function is required, a decentralized programming function should be maintained. Moot, addressing this point states, " . . . the best of systems will fail if people are not motivated to use them."<sup>1</sup> Whereas under McNamara, program decisions were made in the office of the Secretary of Defense, the current administration allows most decisions to be made at the agency level with the Secretary of Defense using control techniques to monitor these decisions. Programming or the program/budget procedure has two primary aims. First, it creates a detailed analysis or total force structure for all department agencies in terms of common missions or national objectives; second, it includes the resource impact of the proposed force structures over an extended period of years.<sup>2</sup> Programming is the specific determination of the men, money and materials necessary to accomplish a program alternative.

In evaluating alternatives, analysts can consider the array of alternatives in one of two fundamental forms. Under one form, a certain level of effectiveness may be specified, and then analysts must seek the most economical way of achieving that level of effectiveness. While

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<sup>1</sup>Moot, "Defense Budgeting, A New Look," p. 5.

<sup>2</sup>Novick, "The Department of Defense, p. 55.



under the other form, the level of expenditure may be specified, and the analyst must choose the alternative which will achieve the greatest level of effectiveness.<sup>1</sup>

The topic of effectiveness and the factors which determine effectiveness create a small semantics problem. There are a number of terms used by analysts which mean almost the same thing: "cost-benefit" analysis, "cost-effectiveness", "systems-analysis", and "cost-utility" analysis to name the more common terms. But what all these mean and what they lead to is simply "program" analysis, which will be used throughout this paper to convey the technique and methodology used in analysis of alternatives.

The main function of this analysis is to provide as much information as possible on which to base a decision; but these techniques are not designed to actually make the decision. Gene Fisher, in discussing "Cost-Utility Analysis" in Program Budgeting, lists certain characteristics that are highly desirable within the analytical framework.<sup>2</sup>

First, there must be a systematic examination and comparison of alternatives which may be selected to achieve desired objectives. The analysis should be accomplished in a flexible imaginative framework which will develop additional alternatives if required or will suggest

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<sup>1</sup>Norma V. Brecker, "Costing of Systems," Defense Management, ed. by Stephen Enke, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1967), p. 43.

<sup>2</sup>Gene H. Fisher, "The Role of Cost-Utility Analysis in Program Budgeting," Program Budgeting, pp. 37-38.





changes be made to the original objective on the basis of new information.

Second, the exhaustive examination of alternatives will involve numerous considerations; but two essential considerations stand out. Analysis must provide for the determination of the entire "package" cost of the alternative in terms of the resources consumed (manpower, material, facilities, funds). And, analysis must determine the benefit/utility that will be gained by adaption of the alternative. Inherent within this examination is consideration of the "opportunity cost" of not adopting the proposal.

Third, the same integration of time is required as under the planning function. Alternatives must be evaluated in terms of their short run effect (one to three years), in the light of the Five Year Defense Program which is the basic planning document of DOD, and their long-run effects.

Fourth, while the ability to quantify costs and benefits will improve with time, the analytical framework must still be heavily supplemented by qualitative analysis. Quantified data sometimes can present only a partial picture and making a decision based only on this type of input could be disastrous.

Finally, the framework must provide for timeliness. Completed analysis must be timed to coincide with the requirement for the decision. Decisions made on half completed analysis can be disastrous as well as decisions which were late as a result of untimely analysis.

There is one aspect of this analytical process which must be stressed again. Earlier the decentralized aspects of the programming



phase were mentioned. Again, decentralization is mentioned because centralization of analytical techniques may stifle change and thus undermine a true exhaustive evaluation. Within the programming phase lies the capability to provide both personal commitment to the objectives and motivation to seek the new breakthrough in analysis. The man who builds a better analytical "mousetrap" is the man that will rise quickly to the top.

Any evaluation process if it is to be effective must provide for absolute objectivity with a constant guard against the "self-fulfilling prophesy." In order to provide the best alternative which optimizes the allocation process, no stone can be unturned, even if someone higher in the chain is sitting on the stone.

Arthur Smithies provides one last consideration of the programming function, "Programming . . . may remain merely a useful academic exercise unless it is implemented through the budget, which should provide an essential link between policy and administration."<sup>1</sup> This statement leads directly to a discussion of the budgeting phase and the administrative phase vis-a-vis management and control.

Within this general framework, budgeting can be defined as the activity through which funds are requested of the President and Congress, authorized, appropriated, apportioned, and accounted for.<sup>2</sup> Within the budgeting phase, there are four subphases which bring the proposed

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<sup>1</sup>Arthur Smithies, "Conceptual Framework for Program Budget," Program Budgeting, p. 32.

<sup>2</sup>General Accounting Office, Glossary, p. 48.



program through executive and legislative approval to final post expenditure analysis. This has been the central theme of the paper to this point. Second is legislative authorization and appropriation. Third, is budget execution, which will be discussed later as part of the management function. Finally, the fourth subphase is audit. For the purposes of this paper audit will be used in terms of the external audits of budget execution, reports of which are transmitted to Congress for action. There are two aspects of this process which warrant elaboration.

Although the Armed Services Committee and the Appropriations Committee were impressed when presented with the new "Program Budget," the House Appropriations Committee still wanted the budget format left in the original appropriation categories. As Novick so aptly points out, "Planning and programming are simply superimposed on the budget and govern its substance, although not its form."<sup>1</sup>

The second aspect of the presentation phase is that there are several review periods prior to final submission of the President's Budget to Congress. These review periods insure, or at least permit the possibility to insure, that the original planning assumptions are still valid and changes are made to the programs in order to keep them in line with national objectives.

The entire budgeting process, as discussed so far, requires one additional ingredient -- the management function. This management begins

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<sup>1</sup>David Novick, "The Department of Defense," p. 71.





early in the planning stages and runs until every dollar is spent to include the post-expenditure review.

Robert Anthony identifies three distinct administrative processes which made up the management function: management control, strategic planning, and operational control. He states further, "The complete management function involves an integration of all these processes, and the processes are complimentary."<sup>1</sup>

Management control can be defined as the process by which managers assure the resources are obtained and used effectively in the accomplishment of the specific objectives. Management control is simply using the "total system" to insure effectiveness and efficiency, which is the underlying theme of the budgetary process. Anthony goes on to say that a management control system should be a "coordinated and integrated" information system, oriented to evaluating the effectiveness and efficiency of the entire organization.<sup>2</sup>

The next process discussed by Anthony is "strategic planning." This has been discussed in detail earlier. Anthony defines "strategic planning" as ". . . the process of deciding on the objectives of an organization, on changes in these objectives, in the resources used to attain these objectives, and on the policies that are to govern the acquisition, use, and disposition of these resources."<sup>3</sup> This coincides

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<sup>1</sup>Robert N. Anthony, John Dearden, and Richard F. Vancil, Management Control Systems (Homewood, Illinois: Richard D. Irwin, Inc., 1965), p. 2.

<sup>2</sup>Ibid., pp. 2-3.

<sup>3</sup>Robert N. Anthony, Planning and Control Systems: A Framework For Analysis (Boston: Division of Research, Harvard Business School, 1965) p. 16.





with the interdependency of each of the functions and processes.

The final process discussed by Anthony is "operational control." This is defined as " . . . the process of assuring that specific tasks are carried out effectively and efficiently."<sup>1</sup> The focus here is in the individual program or program element and falls within the responsibilities of the agencies of the Department of Defense.

What has developed to this point is a total budgetary package that provides for continuous planning, analysis and programming, and presentation in the form of the President's Budget, with a continuous theme of management and administration from start to finish.

The goal of the system is to seek the optimum relationship between the resources consumed and the total contribution to "deterrence," and to insure maximization of our defense capability. The entire system is one of "checks and balances" with controls to insure the tax dollar is spent wisely.

But this system, as any system, is dependent on two key factors: human commitment to the objectives of the system and the validity of information used in the system. The Defense system is still being perfected and will require additional sophistication to handle the increased problem of determining costs of the various programs in light of their benefits. But as pointed out by Moot, " . . . we have the greatest application of the most advanced management techniques, systems, and procedures in the history of the Department of Defense."<sup>2</sup> Again, one

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<sup>1</sup>Ibid., p. 18.

<sup>2</sup>Moot, "Defense Budgeting, A New Look," p. 5.



must keep in mind final legislative approval is a political process not a wholly rational process, but this fact can never be permitted to serve as justification for not using the most scientifically sound techniques to present the best programs to the Congress. In other words, one must use the best analytical techniques available until something better comes along; at the present time the expanded planning-programming-budgeting system is the best the Department of Defense has to evaluate program alternatives.

The next section will provide a few thoughts on information systems that are required to support a budgeting system. As was mentioned previously, the effectiveness of a complex analytical system is dependent on the accuracy of the information provided to the system.



Purpose of Accounting and Information Systems  
Within the Budgetary Process

This section begins with a general discussion of management information systems, then further develops the discussion to include the specifics of financial information and accounting systems.

James Emery lists eight functions common to an information system: data collection, data classification, indexing, data comparison, data storage, data management, computation, data transmission, and data display.<sup>1</sup> For the purpose of this paper, the primary concern with these functions is their contribution to the total system, it is not necessary to discuss the "software" and "hardware" aspects of these functions to gain an appreciation for the problem inherent in a management information system.

Very simply, data collection consists of both the sensing and recording of information deemed to be pertinent. During the data classification and indexing phase the information is identified with various attributes that are relevant to the analysis to be conducted. The data is then compressed to reduce the volume communicated through the organization, without reducing the pertinent elements of information, and then stored to provide a data base. This is a key function as it includes the selection of information used in the final evaluation of alternatives. Once the information is selected the computation function

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<sup>1</sup>James C. Emery, Organizational Planning and Control Systems (London: The MacMillan Press Co., 1969), pp. 34-65.





transforms the input data into output data. This data is then sent through data transmission devices and displayed at the location where it is required.

Before continuing the discussion of an information system, the word "system" should be defined. A system can be defined as "an organized or complex whole; an assemblage or combination of things or parts forming a complex or unitary whole."<sup>1</sup> What is developing in this paper is a system within a system. The information system that is used within the budgetary process is a part of a larger system, which is part of a still larger system called government. The discussion of information systems will be limited to an information system developed as a result of Emery's common functions of information systems. However, this "total system" concept should reinforce the idea of the interdependency among all phases of the total budget process with a common link provided by its management information system.

A distinction should be made between formal and informal information systems. The information created by the formal system is a result of formal reports, statistics, models, as well as documented qualitative factors. The key point here is that the formal system was designed by man to provide the information required. However, valuable information also flows through the "informal organization," which provides input from nondocumented sources. This main characteristic of the informal system is that it has not been designed by anyone, it

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<sup>1</sup>Richard A. Johnson, Fremont E. Kast, and James E. Rosenzweig, The Theory and Management of Systems, (New York: McGraw-Hill Book Company, Inc., 1963), p. 4.



just happened. Having acknowledged the informal system and realizing that it too provides input into the total information system, the remainder of the discussion will be limited to the formal system, as this system can be changed to meet the changing needs of the organization.

Joseph Massie proves an excellent link between the requirement for information and the management function.

Many of the functions of management may be restated in terms of communications concepts; planning by staff specialists involves an interchange of ideas if coordinated plans are to result; directing inherently consists of telling subordinates what to do, organizing provides a framework, or structure, for the transmission of information, and control is essentially a process of communicating the nature of results back to the source so that corrective action can be taken if necessary.<sup>1</sup>

What is desired then is an information system that provides management control as outlined by Massie through the functions delineated by Emery.

While it is relatively easy to state what is desired in an information system it is not that easy when developing or working with a system. The difficulty is not so much in obtaining the data which is related to a program or alternative, but rather channeling the information to the right person, at the right time, and in the right format. The problem becomes what to do with the information once it is obtained.

Anthony, in a discussion of planning and control systems, defines information handling as "the process of collecting, manipulating,

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<sup>1</sup>Joseph L. Massie, "Automatic Horizontal Communication in Management," Journal of the Academy of Management, II, (August 1960), 87.



and transmitting information, whatever its use is to be."<sup>1</sup> The key here again is efficiency, where the emphasis is in providing essential information in the proper format and actively eliminating information which tends to confuse the process or analysis.

Expanding our informational requirement further, we desire the technician to design a system that will sift out nonessential information, but provide the program analyst with all the input he requires to execute a realistically exhaustive analysis of alternatives. This appears to be the weakest link at the present time within the budgetary process. However, this is also the function that will benefit the most as the technology of analysis improves.

Moving from a discussion of the general characteristics of information systems to financial accounting and information systems does not require any adjustment in the desirable characteristics of the system as discussed above. Considering the amount of taxpayer dollars that are involved, the requirement for accurate qualitative information is even more important.

The Department of Defense recognized the necessity of a managerial accounting system when it established Project PRIME. As with any information which can be reintroduced into the analytical framework to determine if change is required, the basic concept behind managerial accounting is to provide information for internal management. As with any information system being designed to provide the information which will have the greatest value in producing effective decision making.

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<sup>1</sup>Anthony, Planning and Control Systems, p. 94.





This has only been a quick intrusion into the realm of systems theory, and specifically management information systems. The process of collecting information, processing it, storing it, and transmitting it to the right user, at the right time, and in the proper format is most complex. There are as many different theories on what is the right information system as there are people interested in information systems theory. However, the above considerations appear common to all the latest theories.

In the last decade there has been tremendous emphasis on "system analysis" in all organizations both in industry and government. Since McNamara, systems analysis has been the theme of budgetary development within the Department of Defense. The effectiveness of these techniques is a function of not only "systems" technology but the personal commitment of the agencies within the Department of Defense.





### Resource Management System and Project Prime

A discussion of Defense philosophy would be incomplete without a more detailed discussion of the Resource Management System (RMS). The Resource Management System can be defined as:

Those methods and procedures used throughout the Department of Defense that (1) deal with resources (manpower, real property, weapons, equipment, services, materials, and supplies), (2) are intended to assist in the management of such resources (planning, budgeting, acquisition, use consumption, storage, and disposition), and (3) constitute systems (they involve recurring, or duty cycles of planning, reporting, and feedback information.)<sup>1</sup>

The process is then an all encompassing system, primarily encompassing four subsystems: (1) programming and budgeting, (2) management of operating costs, (3) management of inventory, (4) and the management of capital assets. It encompasses not only the management of these subsystems but also the reporting, accounting, and audit functions.

As mentioned earlier, the development of RMS dates back to the First and Second Hoover Commissions when performance budgeting and accrual or expense accounting were introduced. The idea of better Defense management was advanced by Charles Hitch and the "program budget" was finally pushed to its present state by Robert Anthony, appointed Assistant Secretary of Defense (Comptroller) in the summer of 1965. Anthony was instructed by the Secretary of Defense to make *CHANGES* in the Defense budget and accounting systems by the start of fiscal

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<sup>1</sup>Department of Defense, Primer on PRIME, p. 7.



year 1968. Anthony's answer to this phase or problems was Project PRIME. (An acronym for Priority Management Efforts). Anthony was also assigned the task of studying systems for the management of inventory and capital assets along with a general study of developing better analytical and information systems related to the allocation process. Thus out of these requirements the Resource Management System was born. RMS is specifically charged with assisting in the operating management of resources.

The ideal type of reform is the type that anticipates needs prior to their appearance. In other words a movement to management action vis-a-vis management reaction. As already pointed out, managers require timely information for decision making purposes. RMS is designed to provide this information. It is hoped that the system provides operating managers with clearly defined goals, a means for determining what resource input is required to accomplish the stated mission, and a means to evaluate present performance against stated goals.

#### Project Prime

The most important aspect of RMS to the operating manager is Project Prime. The main objective of PRIME is to make programming, budgeting, and accounting for operating funds more useful to the manager at all levels and to eventually measure one-hundred per cent of measurable expenses incurred by a responsibility center thus charge that center with those expenses.

PRIME concerns itself with expenses as opposed to investments. The main differences between the two are that the expenses contribute



to the current support of an activity, involve items of equipment of less than \$1,000, and are locally managed. Investments on the other hand are costs associated with the acquisition of equipment and real property, are major end items of equipment over \$1,000, and are centrally managed.

PRIME is designed to assist in integrating the elements of the PPB system with the management and control functions -- specifically reporting, accounting, and audit.

The accounting and budgeting functions of PRIME are based on the ten programs of the FYDP, broken down into program elements (squadron, division, bases, etc.): functional categories (mission operations, administration, supply operations, etc.): and elements of expense (military personnel, transportation of things, supplies, etc.). PRIME then emerges as the link between the high level Defense budget system and the operating managers, providing a common means for communicating requirements to the Secretary of Defense while providing the Secretary a means for evaluating units within the Defense agencies and departments.

In order to fully understand the technique of the accounting system, the fundamental resource categories will be discussed in further detail. Within the major subdivision, that of the ten programs, programs are divided into independent programs and dependent programs. Those programs which relate directly to the defense posture, strategic forces, general purpose forces, and research and development, and on which independent decisions can be made, fall within the independent category. Those programs which support the independent programs, central supply





and maintenance, training, medical and other general personnel activities, and support of the other nations, are categorized as dependent programs.<sup>1</sup>

Program elements, the second resource category, can usually be characterized by a single responsible person; for example, Wing Commander, Division Commander, Base Commander. They can be classified into two types; mission oriented and service oriented. For purposes of accumulating cost data the mission oriented units are charged with the costs of executing their mission as well as costs from service units which directly relate to services performed for the mission unit. In contrast, service units costs and costs relating to internal management of the service unit -- the actual costs incurred in performing the service being charged off to the mission unit.

The idea of a program element costing is fundamental to the concept of PRIME. The idea is to be able to contrast similar mission units (squadrons in Marine Corps, Navy and Air Force) in terms of the total resources consumed and enable the responsible person to have some measure of his performance as it relates to the general performance of similar units.

The last two accounting categories are the functional categories and the expense elements. As mentioned earlier the functional categories tell the manager why the resources were consumed and the expense elements list the actual resources involved. This aspect of PRIME will be discussed in detail in Chapter 4.

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<sup>1</sup>Department of Defense, Primer on Prime, p. 26.



PRIME encompasses two of the current appropriations categories: Military Personnel and Operations and Maintenance, combining the two into a single operating budget. At the present time Congress has not permitted the combination of these appropriations, but it is hoped that they will eventually approve this concept which will greatly simplify the current presentation process for the agencies of the Defense Department. Thus, PRIME has had five basic effects on the accounting system:

1. The cost of military personnel will now be charged to the responsibility center.

2. Within the appropriations process there exists a definite association of "expense" with the operating categories of personnel and operation and maintenance, and "investment" with the procurement and construction categories.

3. The use of "working capital" to facilitate better accounting techniques where expense accounts reflect only items consumed.

4. The establishment of a common set of expense accounts for use by all agencies of the Department of Defense.

5. The move to accrual accounting, which is now only in the early stages of implementation.

In summary, PRIME and RMS are management tools which can provide all managers from the Secretary of Defense to the lowest responsibility center a means of evaluating actual performance. It is designed to provide a fully independent picture of the allocation process and to provide the link between the PPB system and the operating manager.



But it can only accomplish these desirable goals if it is understood and used by the operating manager. Unfortunately, at this time, PRIME is far from reaching this end.



## CHAPTER III

### THE MARINE CORPS: BUDGETING FOR OPERATIONS

#### Background

As with all departments and agencies of the Department of Defense, the budget process of the Marine Corps can be characterized as one of constant change. The process has evolved from a budget of commodities and objects to a budget of programs and projects through the reform process previously discussed.

There is some speculation that this new process has been more of a change for the Marine Corps than it has been for the other services. As the legend goes, as late as the Korean Conflict, if a Marine field commander wanted to purchase an item not stocked by the Supply Department he would personally write to the Quartermaster General of the Marine Corps who would approve or disapprove the request based on the ledgers he kept in his office.<sup>1</sup>

Needless to say, the general aspects of performance budgeting in the fifties and program budgeting in the sixties have revolutionized the management practices within the Marine Corps. Primarily through the efforts of General Leonard F. Chapman, Jr., the Marine Corps has updated all its management systems and is in the process of bringing them into a fully integrated command and control system for use by managers at all

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<sup>1</sup>Edwin H. Simmons, "Budgeting and the Marine Corps," Armed Forces Comptroller, April 1969, p. 24.





levels. However, in spite of all the change one aspect of Marine Corps financial management has not changed and is not expected to change, and that is the philosophy that financial management is inseparable from command.<sup>1</sup> Although the commander receives advice from a technically qualified staff, it is his responsibility to integrate financial management with the accomplishment of his assigned mission. Thus, the objective of the commander is to provide for a full integration of financial management with the administration, operations, and logistic functions. Or, to express this thought another way, he must accomplish his assigned mission with the optimum allocation of resources. He must be on guard constantly for fiscal limitations becoming "the tail wagging the dog." The Financial Guidebook for Commanders points out that " . . . financial management has no bearing on the determination of the mission but rather is a primary consideration in determining both the means and time -- phasing of its accomplishments."<sup>2</sup>

All marines, regardless of job title, are expected to operate within the realm of what is considered sound management practices, but for the commander this becomes one of his most important functions. He is charged with the execution of his mission using the resources allotted to him. The media has been carrying a message of financially austere times for the Department of Defense and its agencies, thus, there is no

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<sup>1</sup>James F. Wright, "Financial Management Is Inherent in Marine Corps Command," Navy Management Review, XII, No. 7, (July 1967), 20.

<sup>2</sup>U. S. Marine Corps, Financial Guidebook for Commanders, Marine Corps Order P7300.9 (1969), p. 2.



excess which will permit waste of those resources.

In addition to this command responsibility, the commander has a legal responsibility under section 3679 of the Revised Statutes, U. S. Code, not to overcommit, overobligate or overexpend appropriated funds. Although no commander has ever been formally charged and tried under this statute, it does tend to emphasize the importance placed on sound financial management.

Although the requirement to use sound management practices is applicable to all commanders from the platoon leader to the Commandant of the Marine Corps, the type of financial responsibility that will be addressed in the remainder of the paper applies directly to those commanders who receive funds via an Operating Budget/Suboperating Budget or an allotment/suballotment; also, to some degree, those commanders that receive operating targets (OPTAR) or planning estimates.

Field commanders who receive operating budgets have specific responsibility for: (1) determining the most economical utilization of resources to accomplish their mission, (2) preparing budget estimates which delineate the resources required to accomplish the mission and then submit those estimates to the granting authority; (3) to prepare a financial plan to utilize the funds that are authorized by the granting authority; (4) to execute the budget according to plan to include the proper accounting and reporting requirements; and (5) to provide for a continuous review of changing requirements and adjust the individual process accordingly.<sup>1</sup>

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<sup>1</sup>U. S. Marine Corps, Financial Guidebook, p. 3.



The commanders who do not receive an operating budget or allotment/suballotment, but do receive an operating target or planning estimate have the same requirement; but their formal budget submission and reporting requirement is considerably less complex. However, they do have the requirement to insure that the funds they receive are expended for the purpose intended and that overobligation does not take place.

#### Sources of Funds

The basic source of funds supporting the Marine Corps is provided through the following appropriation categories; Military Personnel, Marine Corps (MPMC); Reserve Personnel, Marine Corps (RPMC); Operations and Maintenance, Marine Corps (O&MMC); and Procurement, Marine Corps (PMC).<sup>1</sup> The first three, Military Personnel, Reserve Personnel, and Operations and Maintenance appropriations, are annual appropriations. Commanders are expected to obligate these funds during the fiscal year for which they were authorized. The last appropriation, Procurement Marine Corps, is a "no-year" procurement account where unobligated funds may be carried over to the next year.

Military Personnel, Marine Corps provides funds to pay active duty Marines their salary, subsistence, housing, clothing allowance, and

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<sup>1</sup>The Marine Corps also receives funds through the Marine Corps Industrial Fund, the Stock Fund, and an indirect appropriation from the Navy. As these are not particularly pertinent to the discussion of budget formulation, they will be omitted from further consideration.





movement expenses involved in a permanent change of station. This appropriation is centrally managed at Headquarters Marine Corps by the G-1 of the Marine Corps.<sup>1</sup>

Reserve Personnel, Marine Corps is the appropriation which provides for the pay, allowances, clothing, subsistence, per diem travel, along with any other related costs of Reserve Personnel. This appropriation is centrally managed as an open allotment; with the exception of clothing which is controlled by limiting the amount distributed to designated responsibility centers.<sup>2</sup>

The other centrally managed appropriation is Procurement, Marine Corps. This appropriation finances the purchase of major end items of equipment and generally those items which fall into the "investment" category. The Marine Corps, by mission, does not become involved in the purchase of high dollar items such as the C-5A, F-14, and MBT 70, etc. The Marine Corps is only responsible for developing items which are peculiar to its mission as an amphibious task force. For its other equipment, the Marine Corps monitors the development programs of the other services, thus procurement vis-a-vis the programming process used by the other services is far more simplified for the Marine Corps.

The remaining appropriation is Operations and Maintenance, Marine Corps. This is the "bread and butter" source of funds for the operating units of the Marine Corps. These funds provide for the day-to-day operation of the Marine Corps, and as such are of primary interest to the field commander. These funds, when coupled with "Military Personnel, Marine

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<sup>1</sup>U. S. Marine Corps, Financial Guidebook, p. 7.

<sup>2</sup>Ibid., p. 8.



Corps" form the "Operating Budget," which will become the focal point of this paper. These funds are managed by the field commander and monitored at Headquarters Marine Corps through data provided by Project PRIME.<sup>1</sup>

As the central theme of this paper focuses upon the funds provided through the Operations and Maintenance Appropriation, additional explanation of this category is warranted. In order to discuss the management of these funds, a distinction will be made between what portion are fixed/semi-fixed expenditures and what portion of these funds are available for management by the Marine Corps' Commanders.

The funds from this appropriation " . . . are intended primarily for the support of the operating forces with particular emphasis on the Fleet Marine Forces. A significant Marine Corps objective is to train and maintain the Fleet Marine Forces at a high level of combat readiness for service with the Fleet, ashore, or for such other duties as the President may direct."<sup>2</sup> More specifically the funds are used by the Fleet Marine Force Units to maintain, repair, or replace all ground and ground support equipment, to pay for operational training expenses, for maintenance of medical and dental mount out supplies, and for recreation and welfare supplies. The funds provide the Marine Corps Bases and other

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<sup>1</sup>The term field commander will be used throughout the remainder of this paper to mean division/wing, base commander and higher.

<sup>2</sup>U.S. Congress, House Committee on Appropriations, Department of Defense Appropriations for 1972, Operations and Maintenance (Part 4), before a subcommittee of the Committee on Appropriations, House of Representatives, 92nd Cong., 1st Sess., 1971, p. 353.



supporting activities with funds for base operation to include the maintenance and repair of all equipment and facilities as well as finance the services they provide such as disbursing, training support, police and fire protection, utilities, etc. In general, this appropriation also provides for maintenance of the Marine Corps Supply System, support of the Marine Corps Reserves, recruit and specialized training, college and advance degree programs, data processing support, and the operation of Marine Corps Headquarters. The point is that most of these functions cannot be significantly altered by individual managers within the Marine Corps; significant percentages are actually "fixed costs" which take major Presidential and/or congressional action to alter. Thus managers at Headquarters Marine Corps are charged not with deciding where the funds will be allocated, but rather insuring that once allocated the funds are utilized in the most efficient and effective manner.

One specific example is the utilization of civilian personnel. Funds to pay for civilian personnel come from the Operations and Maintenance Appropriation. Whereas in industry the president of a company can "lay off" workers when times are tough, individual activity commanders are somewhat limited in determining short-run civilian personnel levels. Of the total direct obligational authority of \$364,991 requested by the Marine Corps in 1972, \$151,884 was directly attributable to civilian personnel within the Marine Corps.<sup>1</sup> This is over forty-one per cent of

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<sup>1</sup>Ibid., p. 356.





the entire Operations and Maintenance Appropriation. One should be able to see some of the problems inherent in managing an Operations Budget. This subject will be treated in more detail in Chapter IV.

### The Budget Cycle

The budget cycle in the Marine Corps follows guidance promulgated by the Department of the Navy and the Department of Defense. The cycle is generally as depicted below:<sup>1</sup>

|  |             |
|--|-------------|
| Field Budget Guidance Published          | Sept (FY-2) |
| Marine Corps Program Documents Published | Mar         |
| Field Budget Guidance Update Published   | Mar         |
| Field Estimates arrive at HQMC           | Apr         |
| FDMC Budget call to staff                | May         |
| Internal HQMC Budget review              | Jul         |
| Budget submission to NAVCOMP             | Aug (FY-1)  |
| Department of Navy hearings              | Aug-Sept    |
| NAVCOMP Markups                          | Sept        |
| Revised Budget submitted to OSD/OMB      | Oct         |
| DOD/OMB hearings                         | Oct-Dec.    |
| DOD/OMB markup                           | Oct-Dec     |
| House hearings                           | Feb-Apr     |
| Apportionment data submitted             | Apr-Jun     |
| Senate hearings                          | Apr-Jun     |
| Act passed                               | July        |

There may be some variance, but the Marine Corps must keep close to these dates in order to coincide with the overall federal cycle discussed earlier.

The budget devised by the Marine Corps is a complex plan " . . . based upon the Marine Corps mid-range objectives plan -- which reflect the

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<sup>1</sup>U. S. Marine Corps, Field Budget Guidance, Marine Corps Order 7100.1 (1971), pp. 2-6.





Joint Strategic Objectives Plan of the Joint Chiefs of Staff.<sup>1</sup> The Marine Corps plan with its specific programs is then blended together with all other Defense Programs to form the Five Year Defense Program. Marine Corps plans as well as the FYDP are expressed in terms of programs, program elements, and resource categories.

There are two agencies at Headquarters Marine Corps that play a part in the budget cycle and formulation process: the Appropriation Sponsor and the Project/Cost Center. The Appropriation Sponsor is responsible for preparing the appropriation estimates to insure that the programs or portion of programs laid out by the Commandant as well as other higher authority are included within the appropriation. The Appropriation Sponsor also has responsibility for presentation of the request at all stages of review. Staff responsibility for budget formulation rests also on the Project Sponsor/Cost Center at Headquarters. These centers are responsible for taking the field budget submission and translating the programs into formal operations and maintenance requirements. They also are responsible for submission of supporting data to the Appropriation Sponsor. Project Sponsors are responsible for identification and collection of costs within their areas of responsibility.

The responsibility of the Appropriation Sponsor and the Project Sponsor/Cost Centers does not stop with submission of the budget to Comptroller of the Navy. They must maintain records of any changes made throughout the remainder of the cycle and incorporate the final changes (after reclama) into the Marine Corps Financial Plan.

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<sup>1</sup>U. S. Marine Corps, Financial Guidebook, p. 12.



The Marine Corps budget is a function of the Program Objectives Memorandum submitted by the Commandant of the Marine Corps and the Program Decision made by the Secretaries of the Navy and Defense. It is up to the Commandant to provide the Appropriation Sponsors and the Project Sponsor/Cost Centers with guidance to accomplish this final implementation. The Commandant's cognizant staff member in this area is the Fiscal Director of the Marine Corps (FDMC). The Fiscal Director plays an important role in the integration of requirements from the field and those delineated by higher headquarters.

When finished the Marine Corps budget estimate will reflect the three centrally managed appropriations, military personnel, reserve personnel and procurement, along with the operating requirements from the field. The budget is now ready to begin its extensive review process.

The first step in the "review" portion of the cycle takes place at the Department of the Navy. The Comptroller of the Navy (whose primary title is the Assistant Secretary of the Navy for Financial Management) reviews the Marine Corps budget in great detail. This process requires more detailed justification than at any other time in the cycle. Any issues that are raised at this point are settled by the Secretary of the Navy, Assistant Secretary of the Navy (Financial Management), Chief of Naval Operations, and the Commandant of the Marine Corps.

When all issues are resolved within the Department of the Navy, the budget is forwarded with the Navy budget and submitted to the Department of Defense. The Assistant Secretary of Defense (Comptroller) working with officials from the Office of Management and Budget issue Program Budget



Decisions which state the decisions of the Secretary with regard to what will be eliminated from the budget. The agencies may reply to the PBD's with additional justification if they so desire. There is much more latitude at this level with the current Secretary of Defense under the more decentralized approach taken by Mr. Laird, the major revisions come with the Program Budget Decisions in response to the submission of the Program Objectives Memorandum. Thus, the PBD's usually reflect adjustments required by recent policy changes at the executive level.<sup>1</sup>

Once the budget is approved concurrently at the department level and by the Office of Management and Budget, it is sent to Congress by the President.

At this point, the review and justification process starts all over again. First, the Commandant goes before the Appropriation Committee to discuss the general state of the Marine Corps. In essence, he presents an account of his stewardship to the American people. Then the budget itself is taken up, finally ending with the Appropriation bill.

As with all agencies of the federal government, the Marine Corps must first undergo program authorization by the Substantive Committees, then the actual appropriations hearings by the House and Senate, finally ending in the approval for all or at least major portion of the funds requested within the appropriations categories.

The Appropriations hearings are not quite so "traumatic" for the Marine Corps as they are for some of the other services because of the small procurement budget. As can be seen by examination of any daily/

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<sup>1</sup>Moot, "Defense Budgeting," p. 5.







weekly news medium -- the Congress is primarily interested in equipment as opposed to personnel and operating funds.

After the funds are appropriated and signed into law, they are then apportioned by the OMB to the Departments. The Department of Defense then allots funds to the Marine Corps and other agencies of DOD. The Marine Corps then allots to major claimants via the Operational Budget/Sub-Operating Budget, and finally the funds reach the operating units.

The cycle is then closed with the execution of the budget within the constraints delineated above. During this phase of the cycle is the audit process. For the Marine Corps, this means internal audit (Marine Corps), Navy audit, and the Congressional audit by the General Accounting Office.

The process is one typified by constant change and update. The major agencies within the Department of Defense work within the parameters of the Five Year Defense Program. The emphasis on the necessity for integrated planning is evidenced by the operating units within the agencies working with not only the current year and budget year, but the budget year plus one.

### An Overview

Budgeting in the Marine Corps can be considered as falling into two broad categories. First, budgeting that involves investment in new resources -- men, materials, and facilities; and second, budgeting that involves the operation of existing forces. Adding this to what was discussed in the previous chapter, one can see that the Resource Management System encompasses the entire budgetary process of the Marine Corps.



As noted below three of these appropriations which entail about seventy per cent of the new obligational authority given the Marine Corps are centrally managed. These funds are centrally managed because their use is tied directly to policy decisions made at the highest level. The number of personnel in the Marine Corps is tied directly to the decision of force levels which are determined by the national objectives. The field commander has no control over how many men he is given or what they are paid, these decisions are all made at Headquarters Marine Corps and Congress respectively. Procurement, the other centrally managed appropriation, is tied directly to mission as determined not internally but externally by the President and Congress.

The emphasis for management of these funds varies from the other three services. Comparing the total appropriation requests of the Marine Corps by major category with the other three services indicates the high proportion of Marine Corps funds tied up with military personnel.

Breakdown by category by service for FY 1972<sup>1</sup>

|                          | <u>MC</u>   | <u>ARMY</u> | <u>NAVY</u> | <u>AIR FORCE</u> |
|--------------------------|-------------|-------------|-------------|------------------|
| Military Personnel       | .70         | .40         | .23         | .32              |
| Reserve Personnel        | .03         | .02         | .01         | .01              |
| Operations & Maintenance | .20         | .38         | .27         | .33              |
| Procurement              | .08         | .21         | .49         | .34              |
|                          | <u>1.01</u> | <u>1.01</u> | <u>1.00</u> | <u>1.00</u>      |

At this point, this paper will turn from a discussion of the basic philosophy of Defense Budgeting and Marine Corps Budgeting to a specific analysis of the operating budget, from its formulation to expenditure and

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<sup>1</sup>Congress, Department of Defense Appropriations, Part I, pp. 1179-1180.



audit. Although the Operating Budget controls both centrally managed and locally managed funds, the operating budget is of critical concern to every field commander. The Financial Guidebook for Commanders clearly states that " . . . its management can mean the difference between affluence and poverty."<sup>1</sup> The Operating Budget becomes the document against which performance can be measured, variances analyzed and adjustments made to provide for the optimum utilization of resources.

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<sup>1</sup>U.S. Marine Corps, Financial Guidebook, p. 8.



### The Operating Budget -- An Overview

Remembering that a budget is simply a plan of action expressed in dollar terms, budget formulation must then be part of the commander's overall planning process. Due to the complexities of the budget process within the Marine Corps as it relates to the different requirements for detailed formulation practices, only the general aspects of budget formulation will be discussed. The process described below would equate to that of a major Marine Corps Base within the Continental United States.

The operating budget " . . . is the annual budget of an activity (responsibility center) stated in terms of functional/subfunctional categories and cost accounts."<sup>1</sup> This budget will present the resource requirements for the activity for the current year, budget year, and budget year plus one. For example, an operating budget submission which will arrive at Headquarters from the field in April 1972 would contain three separate sets of figures. The current year figures would encompass actual expenditures from July, 1971, through a cutoff point around 1 March 72, plus estimates for March through June. The Budget Year figures would include July 1972 through June 1973. Budget year plus one would contain estimates for July 1973 through June 1974.

A responsibility center is defined as " . . . an organizational unit that is responsible for performance of a function (output), use resources (input), and is headed by a responsible individual who has

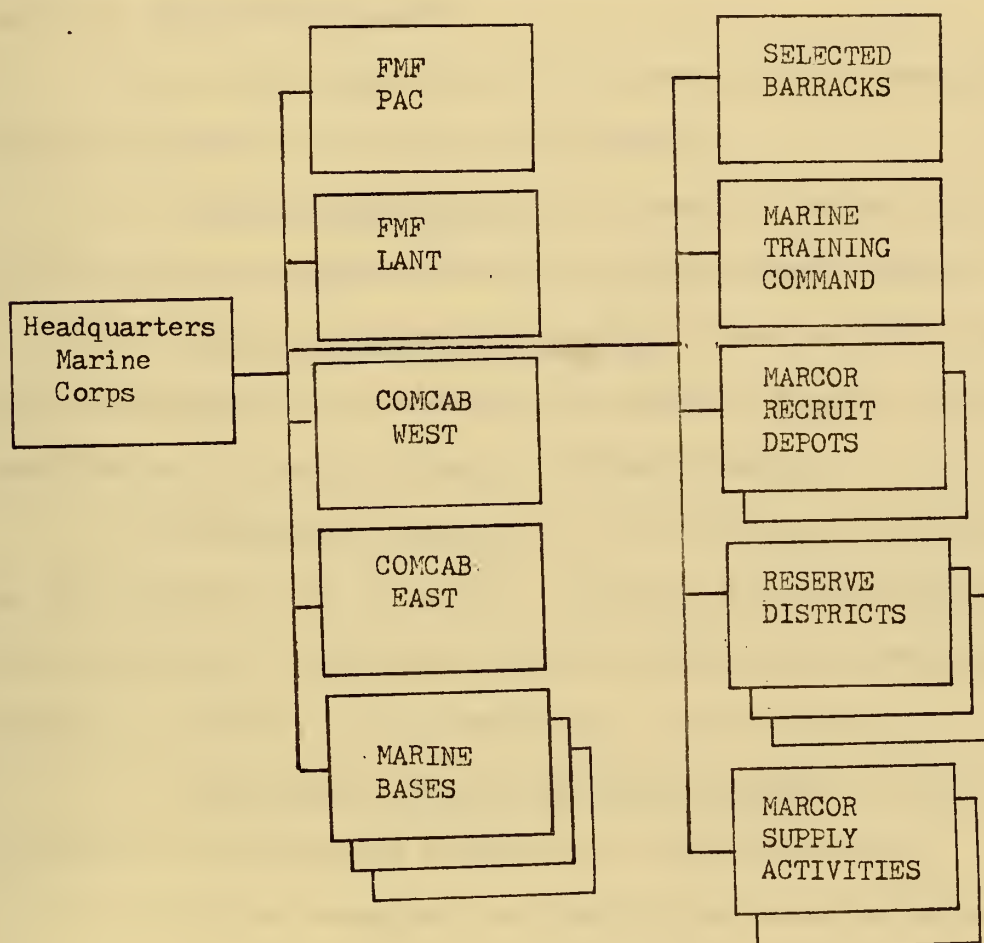
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<sup>1</sup>U. S. Marine Corps, Accounting for Operating Budgets (MCI 34.8) (Washington, D. C.: Marine Corps Institute, 1969), pp. 1-5.





significant influence in the use of resources in the unit."<sup>1</sup> Within the Marine Corps the definition of "responsibility center" is limited to those organizations issued an operating budget: Fleet Marine Force, Pacific (FMF PAC); Fleet Marine Force, Atlantic (FMF LANT); Commander Marine Corps Air Bases, West (COMCAB WEST); Commander Marine Corps Air Bases, East (COMCAB EAST); Marine Corps Bases; Marine Corps owned barracks; Marine Training Command/4th Marine Air Wing; Reserve districts; Marine Corps Recruit Depots; and Marine Corps Supply Activities.<sup>2</sup>



<sup>1</sup>Department of Defense, Primer on Prime, p. 62.

<sup>2</sup>U. S. Marine Corps, Operating Budgets, pp. 2-3.



The major responsibility centers, CG, FMF PAC; GC FMF LANT; COMCAB EAST; COMCAB WEST may transfer the legal and managerial responsibility to their major subordinate units by means of the suboperating budget. These units include Marine Divisions and Wings, major air stations, and the commanding general of the force troops units. Thus, for the purpose of simplicity, the term "operating budget" will be used to refer to all those field commanders who have the managerial and legal responsibility delegated to them via receiving either an operating budget or suboperating budget.

The operating budget that is received by the responsibility center is subject to four basic limitations:<sup>1</sup>

(1) Total direct expenses: the center is subject to a limitation on its cumulative expenses incurred during the budget period.

(2) Total direct operating budget: once again this limitation is on an expense basis, and limits the amount of expense incurred to that specified by the Operating Budget Fund Authorization.

(3) Obligational authority: this limitation is of prime interest to the commander as it is subject to section 3679 of the Revised Statute. The commander may not obligate more funds than those appropriated by the Congress. (Actually, the appropriation is an allotment).

(4) Additional floor and ceiling limitation: this is a specific limitation on obligational authority in a particular area.

As one can presuppose from reading the above limitation, control

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<sup>1</sup>U. S. Marine Corps, Financial Guidebook, pp. 16-17.



is focused in two areas--expense accounting and obligational accounting. Expense accounting is a response to better control techniques advocated by the Second Hoover Commission. Obligational accounting is necessary for agencies to answer to the Congress for their stewardships.

The theory of the accounting system is ". . . to accumulate data at the lowest level of detail, as transactions occur, and to summarize and classify this data at the various levels to meet the management and reporting requirements of the activity."<sup>1</sup> This extremely important aspect of the budget process will be the subject of Chapter 4.

This process of developing the local operating budget must take into consideration a consolidation of requirements from each cost center or responsibility center within the major field activity. Within this framework the cost center is the basic contribution element within the formulation process. A directive issued by the Comptroller of the Navy Financial Management of Resources (NAVSO P-3006) states:

The cost account is the basic building block for development of an operating budget and is so constructed that it relates, generally, both to an organizational entity and to a functional category. Thus, a cost center manager can develop budget estimates for those cost accounts for which he has responsibility. The portrayal of these estimates by cost centers therefore, represents an operating budget by organizational entity for internal field activity management and control.<sup>2</sup>

The cost center manager has the difficult task of incorporating the general guidance sent down from Headquarters, Marine Corps plus any intermediate

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<sup>1</sup>U. S. Marine Corps, Operating Budgets, p. 3-3.

<sup>2</sup>Department of the Navy, Office of the Comptroller, Financial Management of Resources, NAVSO P-3006 (1970), p. 3-4.





headquarters with the specific guidance given by his activity commander. As the mission of the overall unit is of primary importance, he must insure that his cost center is able to provide all the services required to support and execute the mission yet remain within fiscal constraints. The entire planning process from this cost center to the department level must be one in continuous update with a free flow of information up and down the chain of command.

Although the actual formulation process is a highly complex mixture of requirements from the field commander and requirements forced upon the field commander from higher headquarters, the overall construction of the Operating Budget is predicated on the philosophy of determining financial requirements at the lowest possible level. Thus, in general the process of budget formulation consists of four steps: <sup>1</sup>

(1) Converting the planned requirements for each cost account within the cost center into civilian and military labor hours, material requirements, overhead, and work or services to be performed outside that cost center.

(2) Converting the above requirements into realistic dollar figures.

(3) Totaling these dollar estimates for each cost center which will provide the planned operating budget for internal use.

(4) Reworking this data into a consolidated operating budget for the major activity in terms of functional categories and elements of

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<sup>1</sup>Ibid., p. 3-5.



expense. The budget is then sent up the chain of command encompassing the expenditures for the current year, the budget year, and the budget year plus one.



### The Field Budget: Formulation

Remembering that the objective of the field commander is to develop a budget which will allow implementation of actions required to complete his mission, the field budget formulation process begins on this premise.

Initially, the Commandant of the Marine Corps publishes annual field guidance in two parts. Part One will promulgate the general policies, mission activities, personnel ceilings, and other information which Headquarters Marine Corps deems important for field budgeting. Part Two published in the spring, will update the initial guidance plus establish the financial ceilings as determined by the Fiscal Director of the Marine Corps.

The guidance package from Headquarters will contain specific guidance in such things as station operation & maintenance, Marine Corps Reserve training, Marine Corps Recruiting, special services activities, education sources and libraries, transition programs, military family housing, transportation of things, automatic data processing, and a list of required conferences.

Based on this guidance from Headquarters Marine Corps plus guidance from any intermediate headquarters (as in the case of suboperating budget or operating target holders) the commander will establish his own fiscal policy and guidelines. This formulation process will contain information pertaining to three separate years: the current year, the budget year, and the budget year plus one. One important aspect of this procedure is that it provides a measure of performance on which to gauge



the next year's performance.

The next step is for the commander to develop his own program guidelines and promulgate those instructions to his principal staff officers, cost centers, and other subordinate commands. As mentioned previously, it is these cost centers/responsibility centers which provide the input for the operating budget. It is their responsibility to develop operating programs which will lead to the success of the overall unit program and provide a realistically justified estimate of the resources required to put their program into action.

The formulation process is primarily concerned with two of the three years which are reflected in the completed budget: the budget year and the budget year plus one. The budget year is important because it requires the cost center to compare what they submitted in last year's operating budget (as budget year plus one) and adjust their requirements to fit within the financial ceilings promulgated by the Headquarters Marine Corps. Budget year plus one is important because it is the primary forecasting tool of the commander without any real fiscal constraints.

There are two primary tools of the formulation process: the Operating Budget/Expense Report (NAVCOMPT 2168) and the Budget/Apportionment Submission (NAVCOMPT 2179-1). The operating budget/expense report is used for the budget submission as well as for the monthly accounting record to higher headquarters.<sup>1</sup> The Budget/Apportionment submission breaks down the operating budget by functional category and element of expense.

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<sup>1</sup>U.S. Marine Corps, Financial Guidebook, p. 15.





The format for the Operating Budget/Expense Report is as follows:<sup>1</sup>

a. It will be consolidated by the major operating budget holder at the functional/subfunctional level, and will not include military personnel costs.

b. It will contain detail at cost account level within the functional/subfunctional categories, to include military personnel costs.

c. It will contain detail by each program element.

This information is first prepared by the individual cost centers reflecting the cost accounts which fall within their center. This report is submitted on the Operating Budget/Expense Report to the consolidating agency within the command, usually the comptroller, for integration into the budget for the command and submission to higher headquarters. However, the reports prepared by the cost centers are kept and used for internal management and control.<sup>2</sup>

The Operating Budget/Expense Report must be prepared for each year in the operating budget. Specifically, the current year will reflect actual expenses for approximately the first eight months and an estimate of the actual expenditures of the last four months. The submission for the budget year will contain adjustment which bring expenditures within the fiscal ceilings. And, finally, the budget year plus one submission will reflect the projected financial requirements without regard to fiscal limitations.

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<sup>1</sup>U. S. Marine Corps, Financial Accounting Manual, Marine Corps Order P7300.8B (1971), pp. 11-75, 11-76.

<sup>2</sup>Department of the Navy, Financial Management, p. 3-9.



The budget/apportionment submission will be prepared for each of the three years and will reflect expenditures within a program element by functional category and element of expense. It also reflects total operating expenses and anticipated reimbursements which yield the total direct expenses.

In addition to these two key forms, current directives require additional information: program highlights, workload data displays, a consolidated pro-form display operating budget, consolidated increment/decrement schedule current year, budget year, budget year plus one, pro-form display, suboperating budget, program element spread by project, increment/decrement schedule by project, consolidated functional category data for the three years, consolidated element of expense data for the three years, consolidated data, operations and maintenance by operating budget/suboperating budget for the three years, facilities management summary, selected data exhibit, an unfunded reimburseable expense exhibit, a funded reimburseable exhibit, a priority listing of deficiencies, a civilian personnel exhibit, a temporary additional duty (TAD) exhibit, a rental passenger carrying and cargo vehicle exhibit, Marine Corps Stock Fund data, flight operation exhibits, the military personnel service report, telecommunications exhibit, mechanized code sheet format, operating target budget estimate submission, a report of furnishings for military personnel quarters--bachelor housing, over a statement of dollars obligated and budgeted for furniture, furnishing, as equipment--bachelor housing. Apparently the main function of these additional twenty-five reports is to



present amplified segments of the information contained in the Operating Budget-Expense Report and the Budget Apportionment Submission.

However, some of these exhibits do provide important information. First, the program highlights present the general plan of action for the command. The workload statistics present the basic personnel and logistic assets. The Consolidated Pro-Forma display contains information by Budget Project (functional category) for current year; budget year, and budget year plus one in terms of their expenditures, the change in unfilled orders, and new obligated authority.

The next series of important forms are the increment/decrement schedule--narrative justification. Their purpose is to justify differences between the current year and budget year expenditures and the budget year and budget year plus one expenditures.

These reports/forms are designed to break down the financial information into data including military personnel, data excluding military personnel, and obligated but unexpensed funds. Reimbursable work is defined as " . . . any material or services provided to another activity at the expense of the performing activity, for which eventually there is reimbursement."<sup>1</sup> The inherent value of these documents involves esoteric considerations which are beyond the scope of this paper.

The data is then consolidated and reviewed by the field commander, sent up the chain for review by the intermediate headquarters and Headquarters Marine Corps and the various Responsibility Centers at Headquarters. This review process will be the subject of the next section.

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<sup>1</sup>U. S. Marine Corps, Financial Guidebook, p. 15.







### The Field Budget: Review through Expenditure

The field operating budget is reviewed in four phases, one phase as an individual submission at Headquarters Marine Corps, and three phases as part of the Marine Corps consolidated budget submitted to higher headquarters. The final three phases of review, Department of the Navy, Department of Defense and Congressional, were already discussed in some detail earlier in this chapter. Thus, discussion will then be limited to the individual review that takes place upon receipt of the Operating Budget at Headquarters Marine Corps.

Upon receipt of the operating budget at HQMC, a copy is sent to appropriate Cost Centers and the G-4 of the Marine Corps, the Appropriations Sponsor. The Cost Centers are responsible for translation of the Marine Corps programs into formal operations and maintenance requirements. These programs are consolidated into the Five Year Defense Program by budget activity/functional category via major programs. Upon completion of the review at the cost center the compiled field submissions will be presented to the G-4 along with any recommended adjustments to the field submissions. The submission is then reviewed jointly by the cost centers/project sponsor, Fiscal Director of the Marine Corps, G-4, Manpower Coordinator and any other staff agencies which provide additional information to the process.

Upon completion of this joint review the G-4 recommends budgetary



controls to the Fiscal Director of the Marine Corps. These fiscal controls or constraints will be the substance of what is submitted for further review by the Secretary of the Navy, Secretary of Defense and Congress. Throughout this process all estimates are identified by program element.

The review process then takes place at the Department of Navy, Department of Defense, and Congressional levels. The end result will be the Appropriations bill which legally entitles an activity of the federal government to spend money.

#### Apportionment

Prior to the beginning of the budget year, an apportionment request is submitted to the Secretary of Defense by all agencies. This review is essentially in the same format as the DOD review prior to submission of the budget to Congress. But it provides a final update and additional justification to bring the budget, submitted some six months prior, in line with current developments. This process combines an updated review with an evaluation of the proposed expenditure plan for each quarter of the upcoming fiscal year.

#### Final Authorization

The next step is the actual issuance of the Operating Budget by the Commandant of the Marine Corps via the Operating Budget Fiscal Authorization. Funds are provided to the field commander via a quarterly authorization, ". . . with amendments being utilized for unbudgeted or



unforeseen requirements and for centrally managed programs."<sup>1</sup>

Upon receipt of the authorization, the commander must adjust his financial plan " . . . by effecting reductions in those programs which he considers to be least essential to the accomplishment of the overall mission."<sup>2</sup> This, of course, presupposes that there is a reduction in funds requested--a highly justifiable supposition based on historical performance.

If the field commander feels that he has not received adequate funds, he must justify these feelings to the Commandant of the Marine Corps specifically stating how the lack of these funds will hamper the accomplishment of his mission. This justification will require voluminous background information before the operating budget will be increased.

The commander does have some flexibility to shift funds between programs/subheads if that could remedy the problem. But this should not be done as a matter of standard procedure, only in case of "necessity to accomplish assigned mission."<sup>3</sup> If the commander does realign any funds within this authority, he must immediately inform the Commandant of the Marine Corps.

#### Execution

Once the commander has adjusted his operating estimates to reflect the financial assets reflected in the Operating Budget, he executes the budget. The four specific limitations in expenditures have already been

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<sup>1</sup>Ibid., p. 16.

<sup>2</sup>Ibid.

<sup>3</sup>Ibid.





covered earlier. New obligational authority limitation, military personnel expense limitation, total direct program expense limitation, and additional floor and ceilings limitations. He watches over these via the Expense Operating Budget Financial Report (NAVCOMPT Form 2170). The Expense Operating Budget Financial Report is a summary of obligational and expense authority by program/subhead.<sup>1</sup> It "provides a summary view of the activities monthly financial transactions and reflects the financial status at the end of the period."<sup>2</sup> A more detailed discussion of this report will be contained in Chapter 4.

#### Mid-Year Review

During December of each year, the field commanders submit data to Headquarters Marine Corps on expenditures up to that point. The process is designed to redistribute funds within the activity (Marine Corps) and within the Department (Navy and Defense). This process is designed to insure that each level takes a good look at current programs comparing the actual performance with the performance anticipated vice the initial budget submission.

A logical follow on to this discussion is to ask, "How does the operating manager introduce sound financial management practices in the execution process?" This will be answered by an analysis of the system for "accounting for operations."

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<sup>1</sup>Ibid., p. 17.

<sup>2</sup>Ibid.





## CHAPTER IV

### THE ACCOUNTING AND MANAGEMENT PROCESS

#### Accounting for Operations

A budgeting system, like any other managerial system, has one basic goal--to improve the overall effectiveness and/or efficiency of an organization. It appears evident from examining the Marine Corps budget process that there is an effort being made to provide all levels of management the best possible financial planning instrument. But the budget is nothing more than a tool and a tool to be of value must be used. This chapter will address itself specifically to what information is available, at what level is the information most useful, and end up with a discussion of the impact that the information can have at each level.

Financial information is provided through an accounting system. The objective of the Marine Corps accounting system for operations is:

. . . to determine the cost of operations of an activity in terms of the total resources consumed or applied, and to establish a system of monetary and quantitative controls that will be of maximum value to management in assuring that resources are used effectively and efficiently in the accomplishment of the mission.<sup>1</sup>

The system that the Marine Corps uses is based on the reporting requirements levied by Project PRIME. As such, the accounting system is a cross between

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<sup>1</sup>U. S. Marine Corps, Financial Guidebook, p. 25.



a financial accounting system, which provides financial information for external use, and a management information system which provides information for internal management.

Although only holders of operating budgets and sub-operating budgets are specifically addressed under PRIME, the philosophy of financial-resource reporting is the same for all major Marine Corps Units. Specifically Marine Corps guidance on the subject states:

It is emphasized that PRIME is designed to provide information upon which to make decisions at all echelons of command--not just higher command. Properly utilized PRIME generated data can be a valuable aid to subordinate commanders in providing justification leading to favorable decisions on the part of higher authority.<sup>1</sup>

One main difficulty in gaining a full understanding of the PRIME accounting system is the difference between "expense accounting" and "obligational accounting." As has already been pointed out, PRIME shifts the accounting base from obligational accounting to expense accounting, but the requirement for accounting for obligations still remains. In effect, the PRIME system was superimposed upon the old obligational accounting system, with the shift of managerial emphasis placed on the flow of funds from the treasury rather than those funds obligated to be expensed at some time in the future.

However, there is a definite "managerial link" between obligational and expense accounting. Under the present system an obligation is a promise to pay for an item when it is received by the unit. Thus, it is a definite plan to incur an expenditure and as such must be an integral part of the overall financial planning process. The importance of the

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<sup>1</sup>U. S. Marine Corps, Managerial Applications of Project Prime, Marine Corps Order P7000.8 (June 1970), p. 1-1.



expense accounting system is that it specifically measures resources consumed during the period. The commander then must use unexpensed obligations, termed "unfilled orders," as a key input for expense planning during any one period. The management of the "unfilled orders" file is extremely important in the overall financial plan and will be discussed in detail later in this chapter.

Another difficulty which arises in discussing managerial action based on PRIME is the definite distinction between "command" and "management." Command, as defined by the Dictionary of Military and Associated Terms, includes:

The authority and responsibility for effectively using available resources and for planning the employment of, organization, directing, coordinating and controlling military forces in the accomplishment of assigned missions.<sup>1</sup>

Management, on the other hand, is ". . . a process of establishing and attaining objectives to carry out responsibilities . . . management is inherent in command, but it does not include as extensive authority and responsibility as command."<sup>2</sup> The important point here is to distinguish between the fiscal responsibility of the commander and that of the functional manager.

Regardless of the level of command there will be a commander and a group of functional managers. The commander will be responsible for taking

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<sup>1</sup>Department of Defense, Joint Chiefs of Staff, Dictionary of Military and Associated Terms (JCS Pub. 1), (Washington, D. C.: U. S. Government Printing Office, January 1972), p. 66.

<sup>2</sup>Ibid., p. 181.





action which will insure effectiveness and efficiency in accomplishing his mission. The functional manager is responsible to the commander to provide the technical information upon which he, the commander, can base his decisions. But the Marine Corps warns commanders " . . . in utilizing PRIME care must be taken to insure that functional managers do not usurp or erode the authority of the commander."<sup>1</sup>

It should be clearly understood that this message does not mean the functional manager does not have authority to insure compliance to directives that pertain to his technical area of expertise. A wise commander will insure his functional managers have all the tools necessary to fulfill their responsibility to him; this includes an effective "hammer" to insure compliance. Now that the distinction has been made, the actions of the functional managers will be included within the realm of the overall managerial action taken by the commander.

The final big problem experienced by the commander in using PRIME accounting, especially at the field level, is distinguishing between controlled costs and noncontrolled costs. Charles Horngren defines controllable costs as " . . . those which may be directly regulated at a given level of managerial authority."<sup>2</sup> The question that is asked by many of these commanders is, "Just how much authority do I have to cut costs?"

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<sup>1</sup>U. S. Marine Corps, Applications of Project Prime, p. 1-3.

<sup>2</sup>Charles T. Horngren, Cost Accounting, A Managerial Emphasis, 2nd ed. (Englewood Cliffs, N. J.: Prentice-Hall, Inc.), 1967, p. 273



Unfortunately, the answer is all too simple, the commander has very little opportunity to really control many costs. He is told at least in general terms how many military personnel he will have, how many civilian personnel he will have, what his objectives will be, and what equipment and monetary resources he will be given. Where then is the control? One answer may be to separate control of resources from utilization of resources, and design a system which will effectively measure the latter area. Joseph Massie states, ". . . in determining costs controllable by a given manager, it is necessary to analyze each cost element separately."<sup>1</sup> In other words, one must keep in mind that in determining the effectiveness of any control system, thought must be given to costs which can be affected by internal management and those that cannot.

The Resource Management System, specifically Project PRIME, has been designed to:

. . . provide the cost center manager and responsibility center manager reports of financial and quantitative information which will enable him to expeditiously determine variances from planned, specific areas causing the variances, areas where workload is increasing or decreasing, reduced or increased efficiency and to take corrective action to effect efficient utilization of available resources.<sup>2</sup>

Therefore, at each level the accounting structure provides input on resource utilization upon which to base action. While the field commander can use the information to solve problems within his existing resource flow, managers at higher echelons are provided with ". . . information necessary

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<sup>1</sup>Joseph L. Massie, Essentials of Management, 2nd ed. (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1971), p. 126.

<sup>2</sup>Department of the Navy, Financial Management, p. 2-3.



for financial control in the broader spectrum, such as cost analysis by element of expense, major functions, program elements and programs."<sup>1</sup>

The implication of "control" is critical and warrants reiteration and reintroduction of Anthony's distinction between "management control" and "operational control" as it is especially pertinent to a discussion of the Marine Corps' financial information system. He states that management control " . . . is the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives."<sup>2</sup> He goes on to say that a management control system ". . . is a total system in the sense that it embraces all aspects of the company's operation."<sup>3</sup> On the other hand, Anthony sees operational control as ". . . the process of assuring that specific tasks are carried out effectively and efficiently."<sup>4</sup>

The point here is that one must examine the specific information system to determine its primary orientation. There is simply no way for any one system to be "all things to all people." This is not to say that there is not a definite overlap between management control and operational control. Anthony states clearly that ". . . management control sets the guidelines for operational control!"<sup>5</sup> There appears to be general feeling to support that Project Prime, although clearly a management control system in that it provides financial information concerning the evaluation of

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<sup>1</sup>Ibid.

<sup>2</sup>Anthony, Dearden, Vancil, Management Control, p. 2

<sup>3</sup>Ibid., p. 3.

<sup>4</sup>Ibid., p. 7.

<sup>5</sup>Ibid., p. 2.





Marine Corps wide programs and operations, does provide the commander at all levels with important information which can be used to obtain operational effectiveness and efficiency. The first step in finding out how this information is useful to "all levels" is to examine the specific resources which are available to the commander.

### Resources Available

The basic resources available to the commander are manpower, money, and material. Manpower "refers to the personnel, military and civilian, who comprise a command's labor force."<sup>1</sup> The specific number of personnel and what they will be paid is sent down from higher authority, but how these personnel are used in the accomplishment of the unit's mission is the responsibility of that commander. The specific areas for analyzing manpower utilization are man hours and assignment.<sup>2</sup>

The second resource is the money, granted by an Operating Budget Fund Authorization in the form of obligation and expense authority. This document specifies operations and maintenance funds available by quarter by appropriation subhead. The Operating Budget Fund Authorization lists the total direct operating budget and the military personnel expense to yield the obligational authority by quarter. In addition the authorization lists other limitations on funds, such as, the minimum obligational authority available for maintenance of real property, property disposal, project transition, and any other specific fiscal limitations levied by

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<sup>1</sup>Department of the Navy, Financial Management, p. 2-3.

<sup>2</sup>U. S. Marine Corps, Applications of Project Prime, p. 2-3.





Headquarters Marine Corps, by the Department of Defense, or the Congress. The funds authorized as direct operating budget are those consumables the commander will require to support his mission. This phase of management is the most important aspect of the financial/budgetary cycle.<sup>1</sup>

These first two resource categories, manpower and money, are measured by PRIME, and will be the subject of future discussion. The last resource category, material, is divided into two areas: supply and facilities.

Actually, within the supply area, there is a direct overlap between money and material--but a definite distinction in managerial responsibility. The funds are used to purchase materials from the Marine Corps Supply System. That step requires separate monitoring and management, but once the goods are received, the commander must insure that these supplies are used economically and efficiently--something the Marine Corps refers to as "supply discipline." One can easily see that mismanagement in this area can directly affect the manpower and money resources mentioned above, resulting in a greater expenditure of these resources than planned or budgeted for.

An important consideration within this area is "inventory management" by the Marine Corps supply activities. The supply activity will be concerned with its own efficiency and effectiveness of maintaining proper inventory levels while minimizing "holding costs;" but more important the supply system must be responsive to the needs of the field commander. Guidance from Headquarters Marine Corps states that, "Measurement of supply responsiveness is a key ingredient to a commander being able to

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<sup>1</sup>Department of the Navy, Navy Comptroller Manual, Volume II, Publication Number P-1000-2-206 (1961), p. 2-6.



efficiently and effectively execute his financial plan and it is mandatory in determining realistic requisition lead times."<sup>1</sup> In other words, the commander must know approximately the time span it will take to expense an obligation. The means he will use to evaluate the responsiveness of the supply system will be discussed in section three of this chapter.

The second area within the material resource category is facilities. These are the commander's physical assets, such as plant property, land, and land/plant improvements. The primary concern in this area is that the facilities are suitable to enable the commander to accomplish his mission. The facilities must be properly utilized and maintained, especially now that the Defense Dollar is under fire and the battle for the public dollar is intensifying. The key for the local commander is again utilization.

The next aspect of the system of accounting for operations to be evaluated are the sources of financial information. The commander, in order to fulfill his management responsibilities, must know how much of each type of resource he is consuming and where it is going--as well as integrating a subjective judgement of the effectiveness achieved into this quantitative evaluation.

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<sup>1</sup>U. S. Marine Corps, Applications of Project PRIME, p. 3-3.



### The Financial Information Systems

The Marine Corps, like most other large organizations, is shifting from a manual information system to a mechanized system using third generation computer hardware. As will be discussed later this period of transition will impose a burden on the commander to provide dual input in many cases; manual and mechanized. This aspect as the problem is particularly cumbersome in developing a budget and reporting financial information, and can have a negative impact in selling new financial systems to the middle managers of the Marine Corps.

However, the shift to a mechanized computer system, namely the Integrated Information System, should provide ". . . the functional manager with the most current information to insure proper planning, programming, coordination and assessment with respect to their information requirements."<sup>1</sup> Although the Integrated Information System encompasses the entire spectrum from personnel accounting to providing tactical information, it specifically provides for information required for the Resource Management System and Project PRIME. With this understanding the Financial Information System will be discussed in greater detail.

#### The Budget Report Process

The approved operating budget is tied into accounting for expenditures by the "Budget Report Process." Essentially, this process

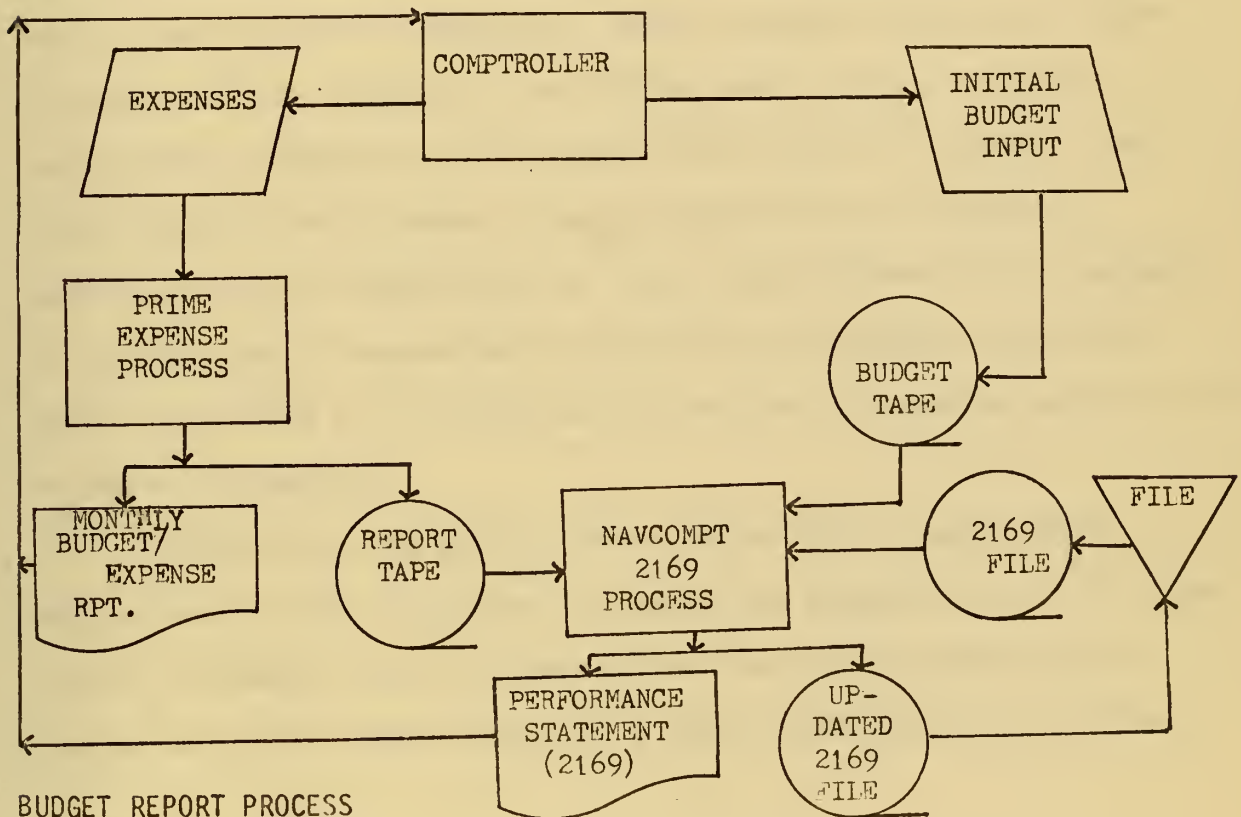
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<sup>1</sup>U. S. Marine Corps, Command and Management Systems Handbook Marine Corps Order P5200.14 (1968), p. 2-1.





uses two basic documents: the initial budget input as reviewed and approved and the expense data from the general ledger and chart of accounts. The initial budget input is introduced into the system via the Operating Budget/Expense Report (Budget Submission); with any increases/decreases in the initial data introduced as they occur.<sup>1</sup> The actual expenses are introduced through a process which sorts the expenses for preparation of the Operating Budget/Expense Report and the performance statement shown by Figure 1. A second process using input from the general ledger is used to produce another PRIME report, the Expense Operating Budget Financial Report.



BUDGET REPORT PROCESS

Source: Marine Corps, Financial Procedures, p. 5-8.

<sup>1</sup>U. S. Marine Corps, Mechanized Financial Procedures for Selected Marine Corps Posts and Stations, Marine Corps Order P7300.10 (1969), p. 1-3.



It will be important here and later to understand some aspects of the cost account system as it functions within the Marine Corps. The Marine Corps has adapted a system of designating automatic data processing programs as Class I or Class III. Essentially, Class I programs are "those which express Headquarters Marine Corps Policy . . . not modified without specific authority from the Commandant of the Marine Corps."<sup>1</sup> Class III programs are ". . . those developed to satisfy local management requirements and one time requirements of Headquarters Marine Corps."<sup>2</sup>

Essentially, all input into the system, whether a Class I or a Class III program, is standardized. The local commander cannot vary the general ledger accounts, subsidiary ledger accounts, descriptive ledger accounts, chart of accounts, or any of the expense data: functional/subfunctional categories, cost accounts, and elements of expense. The local commander does, however, have full flexibility to designate agencies within his organization as "cost centers/responsibility centers" for the purposes of expense and responsibility accounting provided that their designations will not preclude the required information being forwarded to higher headquarters.

Essentially, the general ledger system and the budget report process are both Class I systems. However, the commander may if he wishes add any information that will provide him a better management picture. The job order cost account system is a local system based on logic flow

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<sup>1</sup>U. S. Marine Corps, Financial Procedures, p. 1-3.

<sup>2</sup>Ibid.



charts furnished by Headquarters Marine Corps. The only real restriction is that the system interface with all Class I programs.

A specific discussion of the functions of these processes is complex and requires a technical knowledge of data processing techniques; but as it does not have an impact on the validity of the points discussed in this paper, the topic will be closed. One should keep in mind, however, that the financial reporting system is automated and vast quantities of data (as distinguished from information) is available. The problem for the systems analysts is to keep the system goal oriented, providing the right information to the right person at the right time.

### The Reports

The purpose of a report is to provide information which cannot be obtained from any other source. Although this is a somewhat idealistic definition, it is a sound philosophy to use when requiring reports from subordinate agencies. At this point, it may be meaningful to make the distinction between "data" and "information" alluded to earlier. In essence this means that ". . . information concerns selected data--data selected with respect to problem, user, time, place, and function (reduction of uncertainty)"<sup>1</sup> This distinction must be kept in mind whenever one is evaluating reports or a report system.

The Marine Corps requires seven basic financial reports from activities receiving operating/suboperating budgets:<sup>2</sup>

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<sup>1</sup>Peter P. Schoderbeck, Management Systems, ed. by Peter P. Schoderbeck and Charles G. Schoderbeck, 2nd ed. (New York: John Wiley & Sons, Inc., 1967), p. 44.

<sup>2</sup>U. S. Marine Corps, Financial Reporting Under Department of Defense Resource Management Systems (Project PRIME) for Fiscal Year 1972 and Subsequent, Marine Corps Order 7301.56D (1971), pp. 1-2.





- (1) Operating Budget/Expense Report  
(NAVCOMPT Form 2168)
- (2) Operating Budget/Expense Report--Budget Submission  
(NAVCOMPT Form 2168)
- (3) Performance Statement  
(NAVCOMPT Form 2169)
- (4) Expense Operating Budget Financial Report  
(NAVCOMPT Form 2170)
- (5) Operating Forces Financial System (OFFS) Statistical Report
- (6) Military Service Report  
(NAVCOMPT Form 2182)
- (7) Major Command Suboperating Budget Report.

Before analyzing what report is useful to whom, each report should be explained. The main aspect to be considered in evaluating these reports is whether the information is useful at the preparing level for internal management. To argue that the information is not useful at the higher headquarters is to "chase after windmills."

The backbone of the reporting system is the Operating Budget and Expense Report. It is used for the annual budget submission and as a monthly report on resources consumed. This report can be used internally by the functional manager in conducting an analysis of the performance of his cost centers. Externally, the Operating Budget/Expense Report forms ". . . the basic building blocks in developing an operating budget."<sup>1</sup> While as a monthly report it forms the basic report on the performance of the unit in incurring expenses.

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<sup>1</sup>U. S. Marine Corps, Financial Guidebook, p. 20.





The expenses that are incurred are reported by program subhead and are obtained via the local job order cost account system. The report measures the actual work units completed, man-hours, and accrued expenses by cost center for each cost account within the functional/subfunctional categories. The Marine Corps feels that the inflow of information provides the commander with the information he requires to manage the resources under his control. The Financial Guidebook states:

This report [2168] provides a detail distribution of expenses to the cost account level and a further spread by expense elements. Each activity has cost centers/OPTARS which, due to the dollar volume of expenses recorded against them and/or because of the degrees these expenses are controllable by the commander, should be continually analyzed and reviewed . . . The determination of procedures necessary to effectively monitor them, can best be made by the local commander with the assistance of his particular technical accounting and budgetary staff.<sup>1</sup>

A key point to remember is that the key input into this system via the cost accounts is from the local job order cost account system.

The next report generated by the System is the "Performance Statement Report". This report provides ". . . The commander and the Commandant of the Marine Corps with a report which reflects budget execution based on total expenses and accumulated work units compared to his approved budget program."<sup>2</sup> Simply, it is the unit commander's "report card," evaluating how well he is utilizing his budget. This report provides the commander with specific information by cost account within functional/subfunctional category on expenses and work units on a cumulative basis and then as a per cent of the budgeted figures.

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<sup>1</sup>Ibid.

<sup>2</sup>U. S. Marine Corps, Financial Procedures, p. 1-3.



With this report and the Operating Budget/Expense Report submitted by the cost centers, the local commander should be able to pinpoint a particular problem area and resolve it by implementation of a specifically oriented cost reduction program (if it can be controlled locally), a possible reallocation of resources, or a request for additional funds to meet an unexpected emergency. The primary aim of the field commander should be to pinpoint and remedy the problem as soon as possible.

Another key PRIME report is the "Expense Operating Budget Financial Report." This report is simply a summarization of the general ledger accounts. It reports expenditures by program/subhead giving the essential elements of information for both expense and obligational control.<sup>1</sup>

The next report, the "Operating Forces Financial System (OFFS)--Statistical Report," is not actually part of the PRIME system and is for Marine Corps use only. It is a monthly report, ". . . designed for costing of organic material expenses at the battalion/separate company level."<sup>2</sup> The essence of the report is to list what items of equipment are being purchased from the Fleet Stock Account by the various organizations utilizing this account.<sup>3</sup>

The sixth required report is the "Military Service Report." This report is simply a statement of on board personnel strength by service as

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<sup>1</sup>U. S. Marine Corps, Financial Guidebook, p. 26.

<sup>2</sup>U. S. Marine Corps, Financial Reporting, p. 10.

<sup>3</sup>The fleet stock account is essentially the means through which operating units reserve goods and services. It is administered by the Force Service Regiments.



of the first day of the current month. The personnel are reported and costed out at standard military rates. The report has little value at the local command, and is primarily designed for use by higher headquarters.<sup>1</sup>

The final report required by the Marine Corps is the "Major Command Suboperating Budget Report." The report is designed to inform Headquarters Marine Corps of ". . . all reductions of the major commands obligational and expense authority; or adjustments between subordinate commands even though the obligational or expense authority of the major command are not affected."<sup>2</sup>

The final undertaking in this chapter is to discuss the utilization of this information at all echelons of command and in addition, create a link between the function of controllable vs noncontrollable expenses and the management of each.

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<sup>1</sup>U. S. Marine Corps, Financial Guidebook, p. 29.

<sup>2</sup>U. S. Marine Corps, Financial Reporting, p. 10.





### Management Action Through Information Utilization

It is evident to anyone who has acted in the capacity of a "manager," that what really counts is what he does--not the degree of sophistication of the information he receives. With effective action the primary criterion, one must examine how the manager, at each level, is able to utilize the information provided by the system. The answer to this question lies in the locus of decision-making within the Marine Corps. C. S. Mason, the assistant comptroller for American Telephone and Telegraph, may lend some true insight into the problem when he states:

. . . the work of middle and lower management involves solving problems within the existing resource flow. On the other hand, top management deals with altering the resource flow or expanding or contracting the nature and scope of the organizations' aims.<sup>1</sup>

Mason may have pinpointed the key aspect of the "locus of decision-making" within the agencies of the Department of Defense. Middle and lower management can be considered to be the field commanders, while top management would be Headquarters Marine Corps and higher headquarters. But actually, due to the complexities involved in the ultimate resource question within the Department of Defense, no one agency or person can be considered "top management."

The decision process within the Department of Defense has already

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<sup>1</sup>C. S. Mason, "Making Management Decisions Financially Meaningful," Defense Management Journal, VI, No. 4 (Feb, 1971), 45.



been covered in detail. The end result is the Five Year Defense Program, and the Program Budget developed through the planning-programming-budgeting system. Force levels are set and dollar resources are allocated to the agencies through this process. Thus, the main discussion here will center on deciding what action can be taken at Headquarters Marine Corps and what action can be taken by the field commander.

### Headquarters Marine Corps

The major portion of the allocation of resources of men, money and material, takes place at Headquarters Marine Corps, within the guidelines promulgated by the Department of the Navy and the Department of Defense. The major function of this Headquarters is to design the system for the operating units, which includes specifying the objectives to be achieved by each major command within the Marine Corps. This general guidance includes such items as military and civilian personnel ceilings as specified by the published manning levels, general and specific training requirements, and other requirements that represent the integration of a specific unit into the overall Marine Corps plan.

Within this context the headquarters level is responsible for establishing a financial information system which will provide them the information required. Basically, the information received at headquarters serves a dual function. First, it provides an information base for obligation and expense reports required by the Comptroller of the Navy and the DOD. Second, it provides the control system through which the Commandant can monitor budget execution by the field. However, it is a primary responsibility of Headquarters Marine Corps to purge the financial



information system of any and all superfluous and redundant input to insure that it provides meaningful information rather than unuseable data. In addition, in devising this system, headquarters analysts must attempt to design a system which precludes a local command to look good on paper, when, in reality, the command may be mismanaging its assets. There appears to be a great deal of empirical evidence, both within government agencies and industry, to support the thesis that managers will report to higher authority what it (the higher authority) wants to hear.

Summarizing, an important responsibility of Headquarters Marine Corps, as it pertains to financial management, is to provide accountability for the resources entrusted to it by the Congress. This entails maintaining a holistic approach to management of resources. Specifically, Headquarters Marine Corps decides where to place the resources at their disposal to insure that the overall objective of the Marine Corps is maximized. The post-expenditure review process plays an important part on the overall evaluation as it permits the Commandant to shift resources mid-year to achieve maximum effectiveness. He must rely on his subordinate commanders to insure that use of the resources allocated to their units is optimized. This field optimization process is the real determinant as to whether the Marine Corps succeeds or fails in achieving its goal.

### The Field Units

The objective of the field commander is to optimize the utilization of the resources allocated to him in the execution of his mission. It may be beneficial to briefly review the restrictions placed on the field





commander. It has previously been stated that he has little or no control over military personnel, little control over civilian personnel, and has only a small voice in choosing what his mission/objective will be.

Thus, these areas fall within the general category of noncontrollable costs. But areas of controllable or variable costs do exist within each unit. The Marine Corps states that these controllable costs are "... costs which are directly related to the level of activity and effort,"<sup>1</sup> of the command in question. The problem for the commander then, is to identify these areas and incorporate them into a specific management program. One key to this analysis is a cost/function analysis.

The commander should establish a functionally oriented organization within which elements of expense can be measured. For example, the commander should be able to know where the funds were expended within the general functional area of base services; was it supplies, military personnel, equipment, or utilities and rent. It should be kept in mind that, "It is incumbent upon local commanders to seek out those areas which are susceptible to local management decisions and then cost them out."<sup>2</sup> Only through an analysis of expenses incurred within the functional framework will the commander be able to identify where his resources are being consumed. Once this information is available, he can then weigh the costs incurred within that functional area to the benefits derived toward the accomplishment of the unit's mission.

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<sup>1</sup>U. S. Marine Corps, Applications for Project Prime, p. 3-4.

<sup>2</sup>Ibid., p. 4-2.





One related problem is to come up with a system for measuring output, to match benefit with cost within a functional area. The Marine Corps recognizes this problem in that there are minimum output reporting requirements. The guidelines from Headquarters Marine Corps for developing meaningful output measurement state:<sup>1</sup>

(1) that measurement of output should not focus on resource consumption as it does not indicate the effectiveness achieved.

(2) that the outputs that are measured by actual goods and services produced for external consumption.

(3) that outputs be measured in consistent terms which will prevent comparing "apples" to "oranges."

(4) the accrued cost account must be maintained so that current expenses can be matched against current output.

There is no shortcut formula for this procedure, but unless a sound system for measuring output is used the decisions made from the information flow of a faulty system can only be faulty themselves.

One oversimplified hypothetical example might be two recruiting stations, both with the same basic resources and the same requirements for personnel input. Station A is competing against Station B for an efficiency award. Both stations are providing the same number of new recruits except Station A is incurring three-fourths of the expense in processing applicants over Station B. One might say that Station A is obviously the most efficient recruiting station if one were to examine their budget by function and element of expense. However, what is not

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<sup>1</sup>Ibid., p. 4-3, 4-4.



in the budget is that Station A is keeping out-of-town applicants at a local Army base at \$2.50 a night, while Station B is paying \$10.00 a night to a local hotel. Actually, Station B is by far the better manager because based on per share applications, Station A should be incurring only one-fourth of the expenses of Station B. Unless the local commander evaluating the two stations builds this additional input into his information system, he is getting "faulty" information.

Another problem faced by the field commander is to reach an "indifference point" where there is an optimum tradeoff between additional amplifying information and the possibility of inadequate information. The overall reporting requirements are already quite burdensome. Therefore, the field commander must be quite careful when he adds additional reporting requirements to his subordinate agencies and responsibility centers.

One means the commander can use to establish a system of indicators which would "flag" the need for further information. Four basic types of measurement/management indicators which can be used are unit cost, earned hours, job order cost, and unit capability.<sup>1</sup> Unit cost is determined by relating the resources consumed on a per-unit-of-output basis. For example, a school could view its cost on a per student basis. The second category, earned hours, is determined by measuring actual labor hours against a norm or standard. However, for this to be effective the cost center must operate in a near homogeneous atmosphere. The third indicator, job order cost, is developed through the job order cost accounting system.

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<sup>1</sup>U. S. Marine Corps, Applications of Project Prime, p. 4-5.



It is most useful in evaluating labor effectiveness and total costs of planned tasks. The last indicator, unit capability, is the most important as it is directed to the ability of the unit to accomplish its mission. This is not really fully quantifiable, but results from a combination of reports and the commander's own judgement and definition of readiness.

How then does one fully evaluate the effectiveness of the financial information provided the field commander via Project PRIME? Some excellent answers came from field commanders in response to a Headquarters Marine Corps order requiring each major command within the Marine Corps to submit reports on the benefits to their command via the PRIME system. Some of their comments are listed below.<sup>1</sup>

While the Operating Budget Expense Report and the Functional Category/Expense Element Report provide greater visibility and specific identification of cost, managerial benefits resulting from analysis of these reports have been marginal to date due to many factors which cannot be controlled by the local management.

The system serves such functions [planning and implementation] by enabling the measurement of our accomplishments against our planning in detail, and by clearly pinpointing past weaknesses, thus providing historical basis for needed improvements.

. . . more accurately monitor the use of resources allotted to the command.

PRIME results in justifiable data for redistribution of funds between functions and planning estimate holders based on quarterly expenses and unfilled orders.

Project PRIME permits careful comparisons of past history

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<sup>1</sup>These comments were obtained from official records at Headquarters Marine Corps. Comments were in response to Marine Corps Order 7000.6 which required commands receiving an OPBUD/SubOPBUD to submit quarterly reports on benefits from project PRIME from Jan 1969 to May 1971.







and trends in spending rates to planned operational objectives.

. . . provides useful historical data to aid in budget preparation.

. . . the best interests of the Marine Corps would be best served if PRIME were frankly labeled for what it is, the current accounting and management system best suited to the needs of higher headquarters.

After appraising the system using all the information presented in this paper, there appears to be six basic advantages inherent in the PRIME system:

(1) There is a definite increase in the visibility of expenses within a cost center/unit. And this visibility can lead to local management action via variance analysis.

(2) The system provides a historical information base which is useful in evaluating trends in spending rates to planned objectives for:

a. preparing the next year's budget as well as for the midyear review

b. can pinpoint weaknesses that require management action.

(3) The introduction of PRIME has produced an increased awareness of cost at the lower echelons of command.

(4) The system provides a cost center performance statement which can be used for the internal distribution of funds, providing the commander has the distribution authority.

(5) The system enforces self-discipline upon the cost centers by forcing them to live within their planning estimates which provide them a chance to participate in the determination of their resource requirements.

(6) The system provides commanders with information on their unfilled orders. With this information they can cancel or follow up those



orders to create the proper relationship between resources required for operation and expensed resources.

The PRIME system also has several shortcomings which require thoughtful consideration by both top managers and field commanders.

(1) Although there is a greater visibility of expenses, the action that can result is somewhat limited due to the many factors which cannot be controlled by the local commander.

(2) PRIME requires specific training in managerial accounting in order to understand exactly what is meant by the many documents in PRIME. Further, PRIME requires those personnel who work with the system to be technically proficient in cost accounting, data processing, and report management which increases the overall training burden for the Marine Corps and the local command.

(3) PRIME requirements can be expensive, time consuming, and overly complex wherever the system requires automated information to be duplicated manually.

In essence, PRIME and its associated financial information input is the backbone of the Marine Corps accounting system. How it is used at the local level depends on the commander. Each commander has his own methods which are used in evaluating the efficiency and effectiveness of the units under his jurisdiction. Effectiveness will always be a function of leadership. There appears to be adequate evidence to support a claim that there is room for management of resources at the field level. The commanders must always be alert to insure that he is using all his resources (men, money, and material) to the best advantage in achieving



his mission. Prime has come a long way to help the upper echelons of the Defense structure to gain insight into effective management. PRIME and the associated financial information systems can probably do the same for the field commander.



## CHAPTER V

### SUMMARY AND CONCLUSION

Since 1961, the area of financial management within the Department of Defense has undergone dynamic change. The requirement for a more systematic approach to the allocation of resources was brought about by several basic problems.<sup>1</sup>

(1) Within the public sector, there were more demands than there were resources available.

(2) The portion of the budget that the President, his agencies, or the Congress could control was small because of the commitments made in past years. Thus, there was a requirement for a more comprehensive evaluation process at the agency, Executive and Congressional levels.

(3) As federal programs became larger and more complex, it became increasingly more difficult to provide for multi-agency evaluation and establish the necessary coordination of these programs.

(4) That with the expanding agencies and the program overlap between the agencies, it became more difficult to implement change.

(5) There was a feeling that there were programs undertaken where the costs were greater than the benefits derived from the programs.

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<sup>1</sup>Jack W. Carlson, "The Status and Next Steps for Planning, Programming and Budgeting," Public Expenditure and Policy Analysis, ed. by Robert H. Haveman and Julius Margolis (Chicago: Markham Publishing Company, 1970), pp. 367-369.





Therefore, it was necessary to identify these programs and weigh them in light of other alternatives.

(6) The analytical techniques which were used prior to this time did not provide an adequate means to insure the optimization of the allocation of resources available.

(7) That once the funds were appropriated and apportioned to the agency, there was not an adequate system to measure performance against the resource use.

Although the need of a more systematic approach was brought to the attention of the President and the Congress by the First and Second Hoover Commissions, it was not until Robert McNamara became the Secretary of Defense in 1961 that the words were put into action. McNamara and his Assistant Secretary of Defense (Comptroller), Charles Hitch, sought a solution to the above seven problems through introduction of the Planning-Programming-Budgeting System (PPBS).

PPBS within the Department of Defense was designed with several key innovative characteristics:

- . . . to develop publicly defensible criteria, openly and thoroughly debated by all interested parties . . . to choose from among a number of alternatives . . . considering needs and costs together . . . a plan which projects into the future the foreseeable implications of current decisions . . . the actual use of an analytical staff at the top policy-making levels and the regular use of analysis as an aid to judgement.
- . . . analysis should be open and explicit.<sup>1</sup>

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<sup>1</sup>Alain C. Enthoven and K. Wayne Smith, "The Planning, Programming, and Budgeting System in the Department of Defense: An Overview From Experience," Public Expenditures and Policy Analysis, pp. 485-490.



It was and is basically a top management system which allows the Secretary of Defense to make decisions based on the best possible information. At the same time, the system was designed to provide for a better integrated planning function among the services, so as to eliminate duplication of effort and waste of resources.

There was little question that the PPB system under McNamara gave a good deal more visibility to the complex allocation process. So successful was McNamara, that in 1965 President Johnson prescribed the system for all federal agencies. Although the system didn't work as well in the civilian agencies, it did provide the basic analytical and budgetary framework within which most agencies of the federal government are operating today.

But the Department of Defense did not stop with the PPB system; in 1967, through the efforts of Robert Anthony, it added the accounting function. Anthony, the Assistant Secretary of Defense Comptroller, developed the Resource Management System which basically introduced a system encompassing the management of operating costs, inventory, and capital assets. The system which received the most publicity and had the most impact was the one which dealt with the management of operating costs--Project PRIME.

One of the main purposes for Project PRIME is to identify expenses by functional category within program elements. It provides the means for operating managers to transmit their requirements and performance record up the chain of command ultimately to the Secretary of Defense. PRIME has the ambitious goal of ultimately charging each operating manager with



one hundred per cent of his resources; and in that way permit an interservice comparison, in a broad sense, of ships, planes, missiles, divisions, etc. The real goal was simply better information for top level decision making. However, PRIME was also designed to provide each operating manager with a picture of how, where, and why he used his allocated resources.

When discussing the PPB system, Project PRIME, or financial management as they pertain to the Marine Corps, there are three critical points which should be considered. First, the Marine Corps represents a little less than three per cent of the Defense Budget.<sup>1</sup> Second, although the Marine Corps participates in the development of the Defense Budget, its prime responsibility is the utilization of the resources allocated to them via the Defense budget. And, third, the Marine Corps is not in a position to run a cost-benefit analysis on any budgeting or financial management system with the objective of reducing reporting requirements levied by the Department of Defense. The systems under which the Marine Corps operates are Department of Defense systems, providing information for the Secretary of Defense, and there is no place for an individual agency to accept or reject these systems because they do not suit its own purposes. Thus, inevitably, the Marine Corps must focus its attention on maximum utilization of these systems to provide the type of management information required by Headquarters Marine Corps and the field commander.

The Marine Corps clearly states that financial management is a command responsibility. Thus, the Commandant working through the Fiscal

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<sup>1</sup>Congress, Department of Defense Appropriations Part 4, p. 358.







Director of the Marine Corps, designates certain major activities as responsibility centers and gives them an operating budget. This budget is formulated at the field level and the basic submission contains financial data in two basic areas: operations and personnel. The main focus of the field commander is on operating costs, since the personnel costs are really controlled centrally by Headquarters Marine Corps and attached to the Operating Budget under the full cost concept. The field commander develops his operating budget based on the guidance from Headquarters Marine Corps, including financial ceilings determined by Headquarters Marine Corps, and his own knowledge of his own financial requirements. The local commander, as well as Headquarters Marine Corps, has been provided additional visibility to what resources have been used by the Operating Budget and Expense Report (NAVCOMPT 2168), the Performance Statement (NAVCOMPT 2169), and the Expense Operating Budget Financial Report (NAVCOMPT 2170). These reports, required by Project PRIME, along with any supplemental system devised by the local command, provide expense and performance information by cost center to the local commander.

The effectiveness of this system, as well as any system, depends on getting the right information to the right person at the right time. The current financial information system which supports the budget process has some definite advantages over the approach used prior to the McNamara system. It does provide a better historical record of expense by function by using element. It permits internal comparison of today's performance with yesterday's--analyzing the variance to find out why it exists. The system has unquestionably made the lower echelons of the



Marine Corps aware of the problems of financial management--at least those commanders receiving an operating budget or suboperating budget. The system gives a warning to commanders of problem areas within cost centers/responsibility centers, focusing "management action" to those areas. Finally, because the budget starts with cost centers within a responsibility center, it creates an atmosphere of "self-discipline" inherent in applying the principle of "participative management."

In the same vein, the effectiveness of the system requires recognition of certain limitations. The first of these limitations is the realization that there are a number of costs, the majority of which cannot be controlled by the local commander. All levels must realize this and insure that the evaluative system takes this into consideration, otherwise it will force the next lower level of command to concern itself more with producing figures that look good rather than concentrating on the optimal execution of the assigned mission. Second, and especially pertinent to the Marine Corps, is the requirement to stretch existing resources to cover the additional requirements of implementing the system. The Marine Corps is developing expertise in financial resource management, but it is not an overnight task. While expertise is being developed, field commanders must cooperate utilizing their leadership to assist in maintaining the overall implementation costs at a minimum. Finally, that Project PRIME, or any other system will only be as effective as the individual manager/commander desires it to be.

The answer to the basic research question of whether the present financial information and accounting systems, as they pertain to Operations,



provide the commander and his staff the input necessary to manage their resources effectively and efficiently must then be a qualified yes. It has been demonstrated through information introduced at various points in the paper that the current financial information and accounting system for Operations, Project PRIME, does provide the commander with measureable data on what resources are expended, where, and at what time. It has been demonstrated that the system is compatible with the process of budget formulation and as such provides necessary input for that process. It has also been demonstrated that this system for providing financial information is required to support the planning-programming-budgeting system within the Department of Defense. The reason that the above question does not have a definite affirmative answer is that the system does not provide a substitute for innovative leadership which will provide the action necessary to manage and utilize the system. The Planning-Programming-Budgeting System, Resource Management System, Project Prime, and the local cost account systems all provide quantitative information in resource expenditure. But unless this information is combined on a routine basis with qualitative input based on a realistic appraisal of the situation, the financial information systems, by themselves, cannot provide for proper management decisions.

The local commander, as well as Headquarters Marine Corps, must insure that the system currently in existence, after conforming to the requirements of higher headquarters, provides the maximum information possible to commanders at all levels. The impetus must remain and clearly focus on evaluation of performance; specifically, performance in executing





ones assigned task effectively with the optimum utilization of resources. Every effort must be made to provide the commander with timely, accurate, useful information. PRIME, although not the final answer at the operating level, is a beginning. There is considerable evidence to support the premise that the demands of civilian agencies will become louder and that Defense will have to tighten its belt. And the planning, programming, budgeting system and with expense accounting systems like Project PRIME, give the Department of Defense and its agencies a useful tool with which they can provide for not only the optimizing the mix of resources to programs to achieve the security of our nation; but provide managers a means of identifying expenses by functions so as to insure optimal utilization of those resources.



The first of these is the fact that the British Empire has been  
the most successful in the world in maintaining its position  
of world power. It has done this by a combination of  
military, political, and economic factors. The British Empire  
has been able to maintain its position of world power  
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combination of military, political, and economic factors.

## GLOSSARY

Allotment: the authority, expressed in terms of a specific amount, to obligate and expend funds for a specified purpose.

Appropriation: the Act of Legislation which authorizes the expenditure of funds from the U. S. Treasury. The funds are authorized and appropriated for a specific purpose.

Cost Account: a transaction whose costs are classified according to the purpose of the transaction.

Cost Center: an organizational entity, under a responsible supervisor, established to serve as a focal point for gathering cost data.

Expenses: the cost of the resources that are consumed during an accounting period.

Five Year Defense Program: the summation of all the approved programs of the agencies within the Department of Defense for a five-year period. The FYDP is expressed in terms of programs, program elements, and resource categories.

Interface: data processing term used to describe a shared boundary between two systems; system A being able to extract data from system B, etc.

Leadership: the sum qualities of an officer/manager which enable him to perform in an effective and efficient manner.

Manning Level: the current level of military and civilian personnel authorized for a Marine Corps activity or unit.

Obligation: the agreement to pay a specific amount of money in the future.

Participative Management: managerial technique that incorporates lower level goals/information in the planning process.

Program: a combination of program elements designed to accomplish a specific purpose.

Program Elements: the particular item (manpower, material, facilities) or resource that is required to design a specific program.



Project PRIME: The name given to that portion of the Department of Defense's Resource Management System implemented in 1968 dealing with management of operational assets. It deals with charging an organization with the expenses it accrues during a specific accounting period.

Real Time Information System: a system which provides information to a manager when he needs it.

Reclama: process of agency rejustification or development of alternatives designed to reclaim a portion of a program or budget cut made by a higher authority.

Resource Management System: Department of Defense Management System which encompasses programming and budgeting, management of operating costs, management of inventory, and management of capital assets.

Responsibility Center: major entity under an officer/manager who is responsible for the management of resources and who can influence the expenditures of those resources.

Unfilled Order: a document which resulted in incurring an obligation for a good or service which has not been received/expensed.



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